MONUMENT
Assurance Luxembourg S.A.

# Monument Assurance Luxembourg S.A.

## Solvency and Financial Condition Report at 31 December 2018

# Table of Contents

## Summary

This is the Solvency and Financial Condition Report ("SFCR") for Monument Assurance Luxembourg S.A. ("M.A.L" or "the Company") for the year ended 31 December 2018. The purpose of the SFCR is to meet the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35. This report is the third SFCR published by Monument Assurance Luxembourg S.A. Until 2018, the Company was incorporated as Aspecta Assurance International Luxembourg S.A. In 2018, Aspecta was acquired by Monument Re Limited based in Bermuda and renamed as Monument Assurance Luxembourg.

This public report contains quantitative and qualitative information about the solvency position and the financial condition of the Company. Its objective is to increase transparency for consumers.

This report quotes all figures in 000's as per Article 2 of ITS 2015/2452. All nominal amounts are presented in Euro 000's.

### Business Information

M.A.L is a life insurance company based in Luxembourg that has been closed to new business since 2011. Most of its operations are outsourced to the service provider Quality Insurance Services Luxembourg S.à r.l. ("QISL"). M.A.L holds a 25% strategic participation in the service provider to ensure service continuity and adequate control over the outsourced operations.

The business strategy of the Company is focused on running off the existing closed book of policies and ensuring that high quality customer service remains a priority while seeking opportunities to grow the Company through acquisition of books of business in line with Monument Re group strategy.

Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset-based risks within itsrisk appetite and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- acquiring portfolios or direct insurers, primarily those in run-off and targeting annuity, guaranteed savings or protection product lines, to drive risk diversification and create capital synergies; and
- reinsuring long-dated guaranteed life insurance liabilities.

### Performance

M.A.L's premium income for the year 2018 amounted to EUR 19,499 thousand gross written premiums and EUR 8,290 thousand net written premiums. Most of these premiums relate to unit-linked business.

Further details on the Company's business and performance are provided below in section A. Business and Performance.

### System of Governance

The Company has established a system of governance which is appropriate to the Company's business strategy and operations. There is clear delegation of responsibilities, reporting lines and allocation of functions through documented committee terms of reference and key function charters. The system of governance includes requirements relating to fitness and probity of persons responsible for key functions, remuneration practices and outsourcing activities. A significant portion of the Company's operations and governance arrangements is outsourced to a regulated PSA (Professionnel du Secteur des Assurances) service company, Quality Insurance Services Luxembourg S.à r.l. There were no material changes in the system of governance during the year ended 31 December 2018.

The Company's risk management system is proportionate to the nature, scale and complexity of the risks to which the Company is exposed. The system includes processes for the identification, assessment and reporting of all categories of risk. The risk management system includes the Own Risk and Solvency Assessment ("ORSA") which assists the Board in determining whether there are adequate Own Funds to cover the Company's risks over its business planning horizon.

Further details of the Company's system of governance are provided below in section B. System of Governance.

### Risk Profile

The Company's business activities give rise primarily to underwriting, market, credit and operational risks. Outsourcing significantly contributes to mitigate risks on a long term basis. No material changes of the risk profile have been observed over the reporting period.

Further details of the Company's risk profile are provided below in section C. Risk Profile.

### Valuation for Solvency Purposes

All assets and liabilities have been valued in accordance with Solvency II valuation principles. For the valuation for solvency purposes M.A.L does not apply transitional measures or adjustments. During the reporting period, the valulation methodology has been refined in some areas and best estimate assumptions were updated.

Further details on the valuation for Solvency purposes are provided below in section D. Valuation for Solvency Purposes.

### Capital Management

The structure of the Company's Own Funds comprises of ordinary share capital, share premium account related to ordinary share capital and the reconciliation reserve (including retained earnings). The capital management policy focuses on ensuring compliance with externally imposed capital requirements and to maintain appropriate capital ratios in order to protect the security of its stakeholders, including cedants and policyholders, while maintaining shareholder value.

The Company's Solvency Capital Requirement (SCR) is calculated using the standard formula set by the European Insurance and Occupational Pension Authority (EIOPA). The following table summarises the Company's Own Funds and solvency position at 31 December 2018, with prior year comparatives (in EUR '000, except for percentages):

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Eligible Own Funds to cover Regulatory Solvency Requirement | 27,104 | 26,448 |
| Solvency Capital Requirement | 13,890 | 17,510 |
| Minimum Capital Requirement | 3,700 | 4,378 |
| **Ratio of Own Funds to SCR** | **195%** | **151%** |
| Ratio of Own Funds to MCR | 733% | 604% |

At the year end 2018 basic own funds amount to EUR 27,104 thousand of the highest classification Tier 1. M.A.L's total basic own funds are available without restrictions for an unlimited period of time and are eligible at their full amount to cover the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement

(MCR). The corresponding SCR ratio is 195% and the MCR ratio is 733%. The Solvency ratios are significantly above 100%. The Company therefore appears appropriately capitalised and the current risk situation is in accordance with its risk-bearing capacity.

Compared to the previous year, own funds increased by EUR 656 thousand. This reflects both, the realized profit in 2018 and valuation differences between Solvency II and statutory accounts. The SCR decreases significantly because lower expected future profits lead to lower potential losses in stress scenarios. For the MCR, the absolute floor became relevant due to the significant decrease of the SCR.

Further details of the Company's Own Funds and SCR are provided in Section E. Capital Management.

# A. Business and Performance

## A.1 Business

### A.1 (a) Name and legal form

Name and registered office of the Company is:

**Monument Assurance Luxembourg S.A**

5, Rue Eugène Ruppert
L-2453 Luxembourg
GD de Luxembourg

**(hereafter: "M.A.L" or "the Company")**

### A.1 (b) Name and contact details of supervisory authority

Local Supervisor:

**Commissariat aux Assurances**

7, Boulevard Joseph II
L-1840 Luxembourg
GD de Luxembourg

Tel: (+352) 22 69 11 - 1
Fax: (+352) 22 69 10
Email: caa@caa.lu

Group supervisor of the group to which the Company belongs:

**Bermuda Monetary Authority**

BMA House
43 Victoria Street
Hamilton
Bermuda

### A.1 (c) Name and contact details of the external auditors

**PwC Luxembourg**

2, rue Gerhard Mercator
L-2182 Luxembourg
GD de Luxembourg

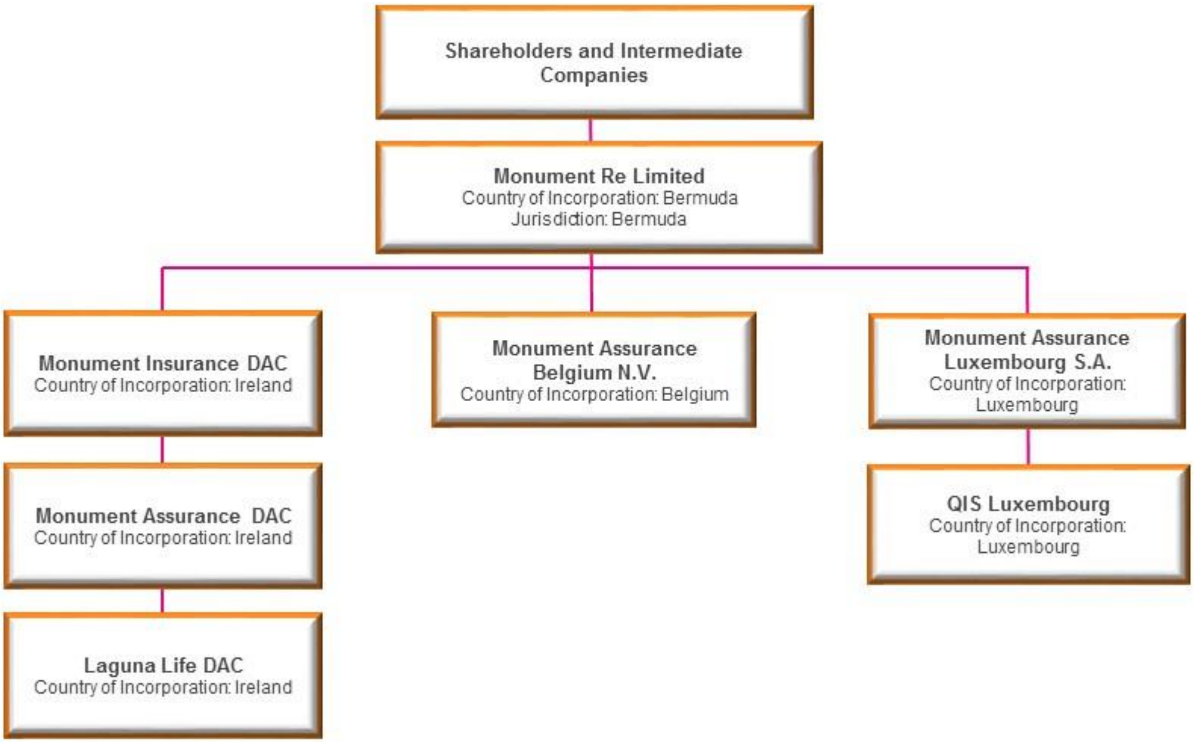
Tel: (+352) 49 48 48 – 1
Fax: (+352) 49 48 48 – 2900
Email: info@lu.pwc.com

### A.1 (d) Holders of qualifying holdings in the group

Monument Assurance Luxembourg S.A. (formerly: Aspecta Assurance International Luxembourg S.A.) was incorporated in Luxembourg in 2000 as a 100% subsidiary of Talanx Group. In 2018, Aspecta was acquired by Monument Re Limited based in Bermuda and renamed as Monument Assurance Luxembourg (M.A.L).

M.A.L owns 3 branches (Italy, Spain and Germany). In a joint venture agreement concluded in 2016, the Company acquired a share of 25% in Quality Insurance Services Luxembourg S.à r.l. (QISL). QISL is a PSA (Professionnel du Secteur des Assurances), registered and regulated by the Commissariat aux Assurances (CAA), the supervisory authority for the insurance industry in Luxembourg.

The Company's simplified Group structure, focusing on regulated entities, at 31st December 2018 is summarised below:




All holdings in subsidiaries are 100% participations except for Quality Insurance Services ("QIS") Luxembourg, which is 25% owned by Monument Assurance Luxembourg S.A.

### A.1 (e) Position within the legal structure of the Group

Please see chart in Section A.1 (d).

### A.1 (f) Material lines of business and material geographical areas

M.A.L is a life insurance company based in Luxembourg that has been closed to new business since 2011. The in-force business is predominantly unit-linked business with a small portfolio of traditional products. The business was principally sold via the Company's branches in Italy, Spain and Germany, with some business sold via Freedom of Services (mainly in Italy, France, Germany and Belgium).

The following table provides the details of gross written premiums by geographical area for the years ended 31 December 2018, with prior year comparatives:

| | 2018<br>€'000 | 2017<br>€'000 |
|---|---|---|
| Italy | 13,332 | 15,899 |
| Spain | 3,326 | 3,723 |
| Germany | 2,416 | 2,648 |
| France | 424 | 505 |
| **Total** | **19,499** | **22,774** |

The Company's total premium income for the year 2018 amounted to EUR 19,499 thousand gross written premiums (premiums before reinsurance) and EUR 8,290 thousand net written premiums (premiums net of reinsurance). As in the previous reporting period, most of these premiums relate to unit-linked business, which is assigned to the line of business "Index-linked and unit-linked" for Solvency II purposes (hereafter: "unit-linked business"). A smaller part of the premiums relates to traditional business with profit participation, which is assigned to the line of business "Life excluding health and index-linked and unit-linked" for Solvency II purposes (hereafter: "traditional business").

The following table summarises how the benefits provided under policies issued by the Company are classified under Solvency II Lines of Business.

| SII Line of Business | Benefits Provided |
|---|---|
| **D: Life Insurance Obligations** | |
| (30) Insurance with profit participation | traditional life insurance business |
| (31) Index-linked and unit-linked insurance | unit-linked business |

### A.1 (g) Significant business or other events which have occurred over the reporting period

None.

## A.2 Underwriting Performance

The Company's financial statements are prepared in accordance with Luxembourg GAAP.

The following tables highlight the underwriting results for the years ended 31 December 2018, with prior year comparatives:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Italy €'000 | Spain €'000 | Germany €'000 | France €'000 | Total €'000 |
| Net premium written | 4,527 | 1,688 | 2,017 | 57 | **8,290** |
| Net premiums earned | 4,534 | 1,688 | 2,017 | 57 | **8,297** |
| Net claims incurred | 12,855 | 1,699 | 2,713 | 106 | **17,374** |
| Changes in other technical provisions | 16,331 | 3,329 | 4,538 | 256 | **24,455** |
| Expenses incurred | 3,478 | 999 | 914 | 383 | **5,773** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Italy €'000 | Spain €'000 | France €'000 | Germany €'000 | Total €'000 |
| Net premium written | 5,104 | 1,861 | 67 | 1,390 | **8,423** |
| Net premiums earned | 5,107 | 1,861 | 67 | 1,390 | **8,425** |
| Net claims incurred | 18,057 | 2,158 | 219 | 1,172 | **21,607** |
| Changes in other technical provisions | 11,203 | –555 | 68 | –10,258 | **459** |
| Expenses incurred | 4,328 | 1,081 | 458 | 1,146 | **7,013** |

The fact that claims paid exceed net written premiums is typical for a run-off portfolio and gets more pronounced over the years. Any new premiums received during the year only relate to regular premiums on existing regular premium policies (99.2%) and a small amount of top-up premiums (0.8%). The largest share of such new premiums stems from the Italian business; other significant contributions come from the Spanish and German markets.

Together with the investment performance (cf. A.3), the underwriting performance contributes to the overall result of EUR 3,258 thousand under Luxembourg GAAP. The increase of the overall result compared to the previous reporting period (EUR 2,132 thousand) mainly reflects the decrease of acquisition and administration expenses, but is also due to the release from the provisions for anticipated losses.

## A.3 Investment Performance

### A.3 (a) Income & expenses

The following table summarises the investment performance of the Company by asset class as reported in the Company's financial statements as of 31 December 2018, with prior year comparatives:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Income €'000 | Expenses €'000 | Income €'000 | Expenses €'000 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 740 | 160 | 1,064 | 236 |
| *Holdings in related undertakings, including participations* | *0* | *0* | *106* | *0* |
| *Government Bonds* | *262* | *55* | *372* | *79* |
| *Corporate Bonds* | *427* | *72* | *474* | *80* |
| *Collective Investments Undertakings* | *52* | *34* | *112* | *77* |
| Assets held for index-linked and unit-linked contracts | 31,324 | 49,743 | 31,645 | 16,976 |
| **Total** | **32,804** | **50,064** | **33,773** | **17,448** |

In case of unit-linked business, the investments linked to insurance policies are selected by policyholders, or their appointed advisers. The Company does not provide asset selection advice. Technically, the assets are owned by the Company which is required by the regulator to maintain assets to match its policyholder liabilities at all times. Investment gains and losses directly affect the policyholders' fund values. In the table above such unrealised gains and losses are recognised as income and expenses of assets held for index-linked and unit-linked contracts (hereafter: "unit-linked assets"), respectively. Refunds from fund managers and dividends paid are included in the income; investment administration expenses are included in the expenses.

For the smaller portfolio of assets backing traditional business, the Company has adopted a risk-averse investment strategy focussing on the investment in government and corporate bonds. In the table above, investment gains and losses are recognised as income and expenses, respectively. Investment administration expenses are included in the expenses. In 2017, dividend payments by QISL were shown as income from holdings in related undertakings including participations. In 2018, no such dividends were paid.

Compared to the previous reporting period, investment performance is dominated by a strong increase of expenses from unit-linked assets which is not compensated by a comparable increase of corresponding income; both are due to the specific recognition of unrealised gains and losses as income and expenses, respectively.

### A.3 (b) Gains and losses recognised directly in equity

Not applicable.

### A.3 (c) Investments in securitisation

Not applicable.

## A.4 Performance of other activies

### A.4 (a) Performance of other activities

There is no material income or expenses from non-insurance business.

## A.5 Any other information

There is no other material information regarding the business and performance of the insurance undertaking other than what has been reported in this section.

# B. System of Governance

## B.1 General information on the system of governance

### B.1 (a) Structure of administrative, management or supervisory body

**Board**

The Board of directors represents the administrative, management and supervisory body of the Company.

The Board of directors of M.A.L has the responsibility for the oversight of the Company's business and sets its strategy and risk appetite. The board comprises two non-executive directors representating the shareholder, one independent non-executive director and one executive director ("Administrateur Délégué") in charge of the daily management. There are no separate sub-committees due to the size of the Board.

Board of directors:

- Manfred Maske, Non-Executive Director, Chairman of the Board
- Alexander Brogden, Non-Executive Director, Board Member
- Olivier Mortelmans, Independent Non-Executive Director, Board Member
- Olivier Schmidt-Berteau, Executive Director (Administrateur Délégué), Board member

**Key functions roles and responsibilities**

The system of governance includes the anti-money laundering, compliance, risk management, actuarial and internal audit functions. Each of the key functions is attributed to one member of the Board of Directors. Activities are delegated to appropriate experts within or outside the Group with a direct reporting line to the responsible Board member.

The holders of the key functions are:

- Olivier Mortelmans is in charge of Internal Audit;
- Alexander Brogden is in charge of the Actuarial Function;
- Olivier Schmidt-Berteau is in charge of Compliance, Anti-Money Laundering and Risk Management.

### B.1 (b) Material changes in the system of governance

There were no material changes in the system of governance during the year ended 31 December 2018.

### B.1 (c) Remuneration policy and practices

**Principles of the remuneration policy**

The remuneration policy and practices have been developed to ensure the Company is able to attract, develop and retain high performing employees. The policy focuses on ensuring sound and effective risk management and recognises the long-term interests of the Company.

The remuneration policy is designed to meet the Company's regulatory requirements. The Company has identified and assessed the applicable regulatory principles with respect to remuneration.

The Monument Re Group Board Remuneration Committee assists the Board in fulfilling its remuneration-related roles and responsibilities. The Committee is responsible for ensuring the Group complies with its commitments within the remuneration policy and that appropriate methods are adopted within the Group's reward practices to safeguard policyholders and customers.

**Performance criteria on variable components of remuneration**

Employees are eligible to participate in the Company's discretionary performance related bonus scheme. The reward is based on completion of individual objectives as well as Company performance. The discretionary performance bonus is based on performance against employee objectives and Monument values. The bonus schemes for the Group entities are approved annually by the Group Remuneration Committee.

**Pension scheme**

Employees of M.A.L and QISL benefit from contributions to a post-employment defined contribution retirement plan based on a percentage of salary. Once the contributions have been paid, M.A.L and QISL have no further payment obligations. The assets of the benefit plan are held separately from M.A.L and QISL in the form of a group insurance policy issued by a Luxembourg insurance company. There is no supplementary pension or early retirement scheme for members of the Board and other key function holders.

### B.1 (d) Material transactions

No other material transactions were executed during this period with the Board members, Senior Executives, or other individuals who exert significant influence over the Group.

## B.2 Fit and proper requirements

### B.2 (a) Specific requirements concerning skills, knowledge and expertise

The framework policy for the fulfilment of the fit and proper requirements sets out the due diligence checks that must be performed. They are applicable for both members of the board of directors and other key employees of the Company and include:

- identification (copy of passport);
- a detailed curriculum vitae showing the professional qualification(s), experiences and skills;
- demonstration of adequate continuous professional development; and
- a good standing certificate.

### B.2 (b) Process for assessing fitness and propriety

Board members must demonstrate their knowledge in insurance business and leadership experience in the industry.

The Company reserves the right to check the fulfilment of fit and proper requirements on the occurrence of certain events, it shall consider a candidate's record as a good indicator of character, as well as other information indicative of honesty, integrity, fairness and ethical behaviour.

## B.3 Risk management system

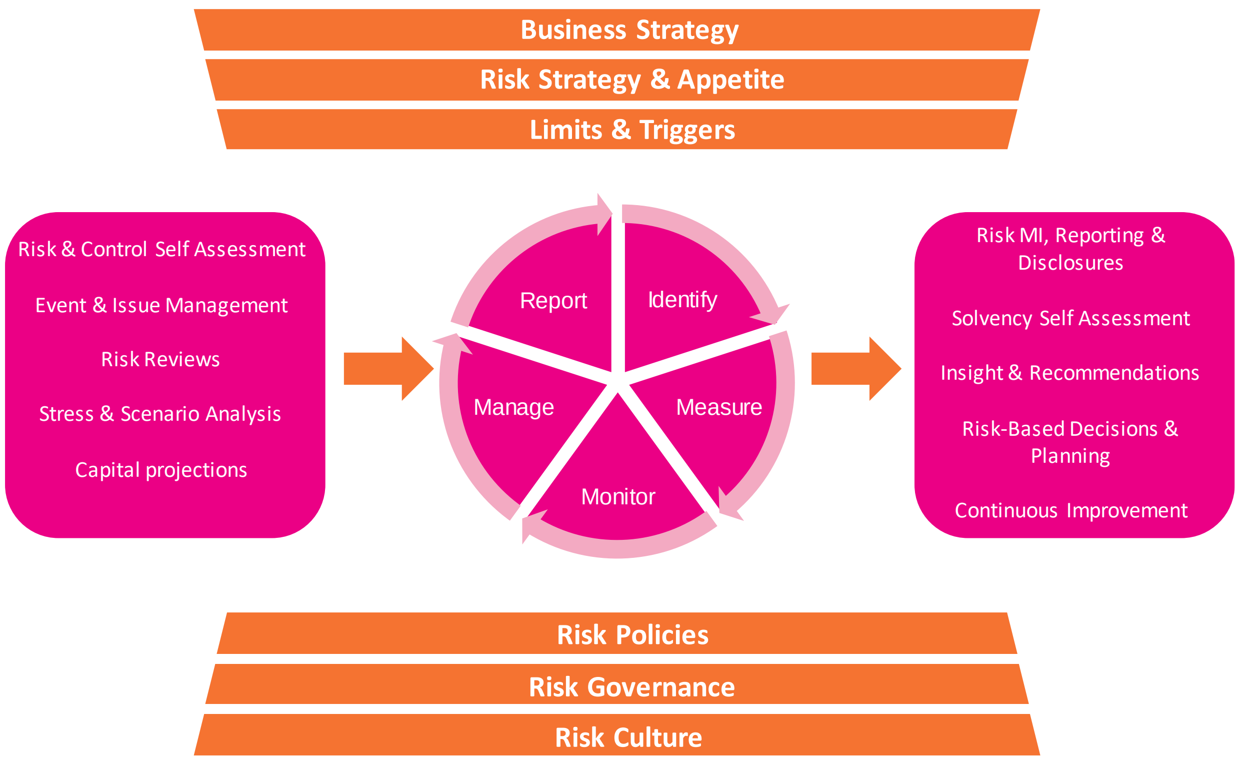
### B.3 (a) Description of risk management system (strategies, processes and reporting procedures)

**Strategy**

The Board considers the business strategy of the Company in determining the risk appetite of the Company. The Board has a risk appetite statement document that outlines the Company's appetite for each type of key risk and its strategy for accepting, managing and mitigating these risks. Risk appetite is articulated in qualitative terms and/or quantitative metrics across the key risk categories and written policies have been established to address these risks.

**Risk Management Framework**

In accordance with international best practices, the Company has established and maintains a maintains a Risk Management Framework ("**RMF**"), which is depicted below:




The RMF is founded on a sound risk culture, an effective system of governance including committee structures and clear accountabilities and a suite of supporting risk policies.

The risk strategy of the Group is aligned to the business strategy. Risk appetite statements express the Board's appetite across all categories of risk facing the business. Quantitative risk limits are set for key risks, along with early warning thresholds, which support proactive risk management. Exposures relative to limits and triggers are regularly monitored and reported to the Board.

The RMF is applied to newly acquired businesses such that there is proportionate and consistent application of a single framework across the Group. A period of transition, in which pre-existing policies continue to operate, is typically required prior to embedding of Group policies with respect to newly acquired businesses.

The material risks addressed by the framework include:

- Insurance/underwriting risk;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Group risk; and
- Strategic risk.

The key objectives of the risk management function, under the leadership of the Company's CRO, are to:

- Maintain a sound risk management framework that supports effective risk-based decision-making, including risk appetite statements and risk limits and oversee the implementation of the framework via appropriate policies, processes and controls;
- Maintain a robust risk reporting framework, including processes and systems for commenting on the overall risk environment, addressing mitigating actions for risks identified, identifying any emerging risks, discussing relevant current issues as well as reporting on risk metrics that monitor risk exposures relative to agreed limits;
- Deliver all external reports as required to meet regulatory and other stakeholder expectations, including Solvency Self-Assessment, risk content for Capital and Solvency Returns, Financial Condition Reports, Financial Statements and Regular Supervisory Reports (where relevant);
- Actively review and challenge in a second line capacity in relation to all transactions and material activities of the Company, seeking to deliver a better overall outcome for the Company by either reducing the level of risk overall or improving the reward for certain assumed risks; and
- Ensuring that the risk management framework remains effective and appropriately positioned, with the requisite skills, knowledge and capacity, to support the planned growth of the Company.

**Risk management process and reporting procedures**

Operational risks continues to be managed through the following three committees:

- Complaints & Litigations Committee,
- Security Committee and,
- Risk Management Committee.

All relevant items are collected in a database managed by the Compliance & Risk Management Function that performs the necessary analyses, follow up, monitoring and reporting.

Complaints and litigations are reviewed by the **Complaints & Litigations Committee**, which oversees the proper management of these records and decides upon general or individual mitigation strategies on a case-by-case basis.

Risks associated with physical and logical security, insurance secrecy law, data protection and the management of business continuity are part of the **Security Committee**.

**Risk Management Committee** deals with all the risks as a whole and takes appropriate decisions for their monitoring and management.

These committees have the objective to cover all services of the Company including its branches. The identified risks are compiled and aggregated by type of risk and recorded in a risk database.

### B.3 (a) Implementation and integration of the risk management system into the organisation structure and decision-making processes

The risk management system is implemented through adherence to the risk management policy. The policy sets out the roles and responsibilities, policy principles & requirements and reporting and escalation procedures regarding risk management at Board and business levels. The risk management function, led by the CRO, supports the Board and business areas in discharging their risk management-related responsibilities. The risk management function provides challenge to the business consistent with the Three Lines of Defence model as outlined in section B.5.

## B.4 Own Risk and Solvency Assessment

### B.4 (a) ORSA process

The Own Risk and Solvency Assessment (“ORSA”) process is a key element of the Company’s risk management framework and is wholly embedded in the decision-making process and business planning for the Company. The ORSA evaluates the Company’s risk profile and solvency position in relation to business operations, strategy and plan. The ORSA is a year-round collection of processes, integrating the Company’s Risk Managament Framework with capital management and business planning. It is the main link between the Company’s risk management system and capital management activities.

The Board has established an ORSA policy that sets out the roles and responsibilities for completing the ORSA. The Board takes an active part through steering how the assessment is performed and challenging the results. The Board reviews and approves the ORSA policy annually. The Board approves the internal ORSA report annually and considers the insights from the ORSA in its decision-making processes.

The Group CRO co-ordinates the ORSA process and prepares the ORSA report with support from relevant areas. The actuarial team assists the risk function in producing various aspects of the ORSA, in particular the capital projections and stress testing. The Board reviews and approves the ORSA report.

The Head of Actuarial Function provides an opinion on the ORSA process. The scope of the opinion includes the range of risks and the adequacy of stress scenarios considered, the appropriateness of the financial projections and whether the Company is continuously complying with the requirements regarding the calculation of technical provisions and potential risks arising from the uncertainties connected to the calculation.

The Risk Management Framework provides for the continuous and forward-looking identification and assessment of the short- and long-term risks of the Company. On an annual basis, the Company performs an ORSA to assess whether it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions. The risk scenarios are based on the Company’s risk profile. The conclusions drawn from the assessment are reviewed by the Board and potential management actions are agreed. The results of the ORSA are made available to the CAA. There are instances where an additional ORSA may be required and that it is the responsibility of the CRO to determine under which such situations this might apply.

The Board is actively involved in the process through its review of the approach, the choice of risks and scenarios to be included and the review and challenge of the results of the assessment.

Decision-making is evident through the Board’s review of the insights gained from the ORSA in approving the Company’s risk appetite and limits, the Company’s capital policy and capital requirements.

### B.4 (b) Frequency of ORSA

The regular ORSA is performed annually and is approved by the Board. A non-routine ORSA is performed following any significant change in the Company's risk profile.

### B.4 (c) Determination of own solvency needs

The ORSA includes an assessment of the Company's view of the capital required for the business, the own solvency needs, as distinct from the capital which is required under regulation.

The Company examines the appropriateness of the standard formula. It considers whether there are any significant risks that are not captured within the standard formula and whether there are any stressed scenarios by which the standard formula may not adequately capture the Company's own solvency needs.

## B.5 Internal Control System

### B.5 (a) Description of Internal Control System

The internal control system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations.

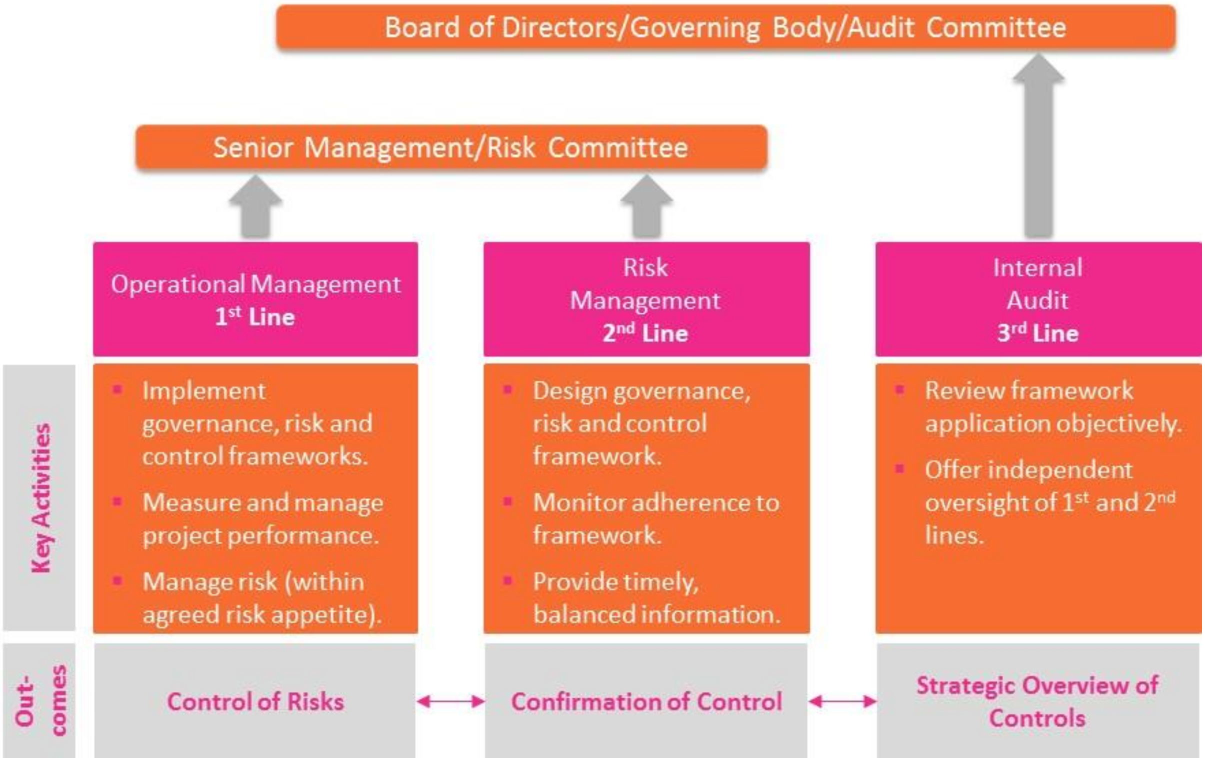
The Board and the CEO, including senior executives, are responsible for adopting an effective internal controls framework.

The Board has established an internal control policy that outlines the processes by which the internal control system is implemented to provide for and maintain the suitability and effectiveness of internal control. The policy outlines the roles and responsibilities, procedures and reporting requirements to be applied.

The internal control system combines the following components:

- Internal control environment;
- Risk assessment;
- Internal control activities;
- Information and Communication; and
- Monitoring.

The Company applies a "Three Lines of Defence" model for Enterprise Risk Management:




Such a model is widely adopted across the financial services industry and allows for appropriate segregation of risk ownership, oversight and assurance responsibilities. In particular:

- **1st line of defence**: Individuals and committees with direct responsibility for the management, control and reporting of risk;
- **2nd line of defence**: Individuals and committees with responsibility for the design, coordination, oversight of the effectiveness and integrity of the Company's risk management and internal control framework; and
- **3rd line of defence**: Individuals and committees providing independent assurance and challenge in respect of the effectiveness and integrity of the risk management framework.

The Company has defined high-level principles and standards to ensure that situations, which could lead to potential conflicts of interest, are appropriately managed. These are formally described in the Company's Conflicts of Interest policy.

The risk register records owners for each risk, who are responsible for ensuring that the risks are identified and that controls remain appropriate on an ongoing basis. The risk register is periodically reviewed by the CRO and is subject to formal review across the business at least annually. This process requires business functions to update the risk register, including the mapping of controls to risks and implementation of new controls. The risk register is also reviewed and approved by the Risk Committee on an annual basis.

The Risk and Control Self Assessment process requires business functions to review and self-assess the effectiveness of controls mitigating the key risks identified. The control owner is encouraged to make any relevant comments about the control and may record its operation as 'effective', 'partially effective' or 'ineffective'. Any record of the control not being effective requires a narrative explanation as well as the assessment. This process is facilitated and overseen by the risk management function and the results are summarized and presented to Risk Committee, including actions to address themes and issues identified.

The Internal Audit Function assesses the operating effectiveness of controls on a periodic basis.

#### B.5 (b) The compliance function

The Compliance Function, under the responsibility of the Administrateur Délégué at the Board level, outsourced to QIS Luxembourg for the day to day and which reports to the General Counsel of Monument Re Group, remains responsible for integrating laws, regulations and local circulars. Compliance matters are in addition framed by the Group's policies and guidelines.

### B.6 Internal Audit Function

#### B.6 (a) The internal audit function

The key audit function is held by the independent non-excutive Direcor at Board level. The annual audit plan is adopted by the Board. The internal audit missions are delegated to the Group Head of Internal Audit of Monument Re and appropriate experts outside the Group when needed. The audit missions were delegated to appropriate experts within or outside the Group.

#### B.6 (b) Independence and objectivity

The internal audit function is independent of the Company's business management activities. It is not involved directly in revenue generation, nor in the management and financial performance of the Company. The internal audit function does not have direct responsibility for, or authority over, any of the activities they review. Nor does their review and appraisal relieve others of their responsibilities. The Head of Internal Audit reports directly to the Audit Committee for oversight matters and is responsible to the Chief Executive Officer for operational and day-to-day management.

### B.7 Actuarial Function

#### B.7 (a) Implementation of the actuarial function

The actuarial function is held by a non-executive Director at Board level. The function is supported by appropriate experts outside the Group. The key roles and responsibilities of the actuarial function include:

- Delivery of actuarial reporting, bases, valuation models and corresponding processes for Solvency II and GAAP reporting;
- Implementation of processes to deliver robust monitoring of capital, liquidity and solvency positions on an ongoing basis;
- Completion of actuarial regulatory requirements;
- Review of reinsurance transactions, acquisitions and retrocession from a capital, solvency and actuarial perspective to ensure transactions meet hurdle requirements and capital implications are well understood;
- Ensuring a robust asset liability matching framework that effectively manages investment risks within the risk appetites and tolerances of the Company in conjunction with the Chief Investment Officer; and
- Contribution to the effective implementation of the risk management framework.

The Board receives an annual report from the actuarial function which includes the results of the tasks undertaken, clearly identifying any deficiencies and giving any recommendations as to how such deficiencies could be remedied. The actuarial function operates under the ultimate responsibility of and reports to the Board and, where appropriate, cooperates with the other key functions in carrying out its role. It is objective and free from the influence of other functions or the Board. It provides its opinions in an independent fashion and can communicate on its own initiative with any staff member, or Board member, and obtains access to any records necessary to carry out its responsibilities.

## B.8 Outsourcing

### B.8 (a) Description of outsourcing policy

When appropriate, the Company outsources specific business functions to reduce or control costs, to free internal resources and capital, and to harness skills, expertise and resources not otherwise available. However, the Company's outsourcing of critical or important operational functions or activities shall not be undertaken in such a way as to unduly increase the Company's exposure to Operational Risk. An appropriate level of due diligence shall be conducted prior to completing the selection process.

All outsourcing agreements shall be monitored by the assigned business owner and reviewed to ensure that outsourced activities are conducted in adherence with the outsourcing policy, the terms set out in outsourcing agreements and with applicable regulatory requirements. Reporting processes shall be in place to ensure outsourcing performance is managed in line with the outsourcing policy, outsourcing agreements and the Company's strategy.

### B.8 (b) Outsourcing and jurisdiction of critical or important operational functions or activities

The table below provides details of the outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located.

| Service provider | Activity | Jurisdiction |
|---|---|---|
| QIS Luxembourg | Policy Servicing, Premium collection and commission payments, Intermediaries management, Reporting and Accounting, Risk Management, Compliance and AML | Luxembourg |
| HDI Systeme | IT support and development | Germany |
| Talanx Service | Reinsurance accounting | Germany |
| Ampega | Fund and asset management | Germany |
| Monument Group | Internal audit | Ireland |

## B.9 Assessment of governance and any other disclosures

The system of governance is considered appropriate for the Company. There is no other material information regarding the system of governance of the Company other than what has been reported in this section.

# C. Risk Profile

The risk profile reflects the Company's key business activities. The Company controls the way it accepts risk and uses risk management expertise to support the creation of sustainable shareholder value.

The processes for the identification and assessment of risks are in line with the risk management system of Monument Re Group. Relevant risks are identified by a structured risk identification process (cf. B.3). This process involves the different operational units and is governed by the principle that anything that could endanger the objectives as well as the financial sustainability of the Company should be identified as a potential risk.

Risk assessment takes into consideration the fact that the Company is in run-off and has outsourced the management of its run-off operations. For the assessment of quantifiable risks in principle the so-called standard formula is applied (cf. E.2). The standard formula is a general model for the calculation of the Solvency Capital Requirement (SCR), which is prescribed by the regulator and which captures, assesses and aggregates defined risks according to a standardised approach. In the ORSA process (cf. B.4), no material deviations of the Company's risk profile from the assumptions underlying the standard formula were identified. Hence, the standard formula serves as an adequate tool for risk assessment. Risks that are not captured by the standard formula are subject to an individual assessment in the course of the Company's assessment of its overall solvency needs (cf. B.3).

Sections C.1 to C.6 contain a description of the Company's risks whereby risks are assigned to risk categories prescribed by the regulator. Note that the assignment of certain risks to these given risk categories differs from the aggregation of risks according to the standard formula (cf. E.2). Such differences are indicated where applicable.

Stress tests are part of the risk management system and support the analysis of extreme events. The use of the standard formula ensures that risk sensitivity is adequately considered where material for risk assessment purposes. In subsequent sections, results of sensitivity analyses for the most important risks are presented.

In order to limit risks, the Company applies various risk mitigation techniques which are described in the context of each of the risk categories below. Principles for monitoring such techniques are laid down in internal guidelines and designed to ensure permanent effectiveness. Risk mitigation techniques are scrutinised at least once a year as part of the Company's risk review.

No material changes to the measures used to assess risks have been made and no material changes of the risk profile have been observed over the reporting period.

## C.1 Underwriting Risk

Underwriting risk means the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. This risk category comprises biometric risks (mortality, disability-morbidity and mortality catastrophe risk), risks associated with policyholder behaviour (lapse risk) and expense risk. Underwriting risk is the Company's most important risk category. The standard formula assigns a value of EUR 11,559 thousand to underwriting risk (cf. E.2).

The Company is in run-off and unit-linked contracts without financial guarantees comprise the major part of its business. This corresponds to lapse risk and expense risk being the most important underwriting risks.

Lapse risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders. For the Company, the most relevant contractual options are surrender and waiver of premium.

Expense risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance contracts.

Furthermore, as a life insurance company, the Company is materially exposed to an increase of mortality rates (mortality risk) and the associated mortality catastrophe risk.

As the Company is closed to new business, no additional underwriting risk associated with new contracts is acquired.

**Mitigating Actions and Controls**

As the Company is closed to new business, the Company's focus is on managing the risks of a decreasing book of residual business. For this purpose, the Company closely monitors its underwriting risk experience, in particular observable lapse rates, in order to recognise future developments in a timely manner. Expense risk has been substantially reduced by the outsourcing agreements that were put in place (cf. B.7). Reinsurance agreements tailored to the Company's situation limit biometric risks and contribute to a smoother risk experience. Both outsourcing and reinsurance are core parts of the Company's run-off strategy.

**Material risk concentrations**

There are no material risk concentrations with respect to underwriting risk.

The following table shows the geographical analysis of insurance contracts on a gross and net of reinsurance basis as of 31 December 2018, with prior year comparatives:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| Country | Gross policy reserves €'000 | Net policy reserves €'000 | Gross policy reserves €'000 | Net policy reserves €'000 |
| Italy | 157,516 | 82,856 | 190,881 | 99,195 |
| Spain | 39,739 | 24,882 | 45,555 | 28,211 |
| Germany | 32,757 | 29,231 | 37,678 | 33,769 |
| France | 4,354 | 1,449 | 5,366 | 1,705 |

**Risk sensitivity**

The Company analysed the uncertainty regarding derivation of best estimate assumptions for its two most important underwriting risks by performing the following sensitivity analyses:

- For the analysis of lapse risk, best estimate lapse and paid-up rates as well as rejection rates for dynamic premium increases are increased by 10%. The impact of this sensitivity corresponds to 19% of the SCR for life underwriting risk. The stress leads to a decrease of Own Funds which is mainly compensated by a corresponding decrease of the SCR such that the overall solvency ratio remains almost unchanged.
- For the analysis of expense risk, best estimate expense assumptions for the legal entity Monument Assurance Luxembourg S.A. are increased by 10%. Expenses paid to QIS Luxembourg remain unchanged since they are fixed by existing contractual arrangements. The impact of this sensitivity corresponds to 17% of the SCR for life underwriting risk. The stress leads to a decrease of Own Funds which is not completely compensated by the decrease of the SCR such that the overall solvency ratio decreases by 10 percentage points.

## C.2 Market Risk

Market risk is the risk of loss, or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This risk category comprises equity risk, interest rate risk and currency risk, which are material for the Company. Market risk is the Company's second most important risk category after underwriting risk. The standard formula assigns a value of EUR 8,358 thousand to market risk (cf. E.2), inclusive of certain parts of credit risk (cf. C.3).

Market risk results from the Company's investment portfolio (cf. D.1) as well as from the technical provisions (cf. D.2) since they also depend on market parameters.

Since unit-linked contracts without financial guarantees comprise the major part of the Company's business, equity risk is its most important market risk. It results from changes in level or volatility of equity prices. Here, product design serves as the primary risk mitigation factor since, in case of unit-linked contracts without financial guarantees, share price losses are in principle borne by the policyholder. However, as is common for unit-linked business, a relevant proportion of the Company's fees are linked to the performance of the unit-linked assets. In this respect, market risk is material for the Company.

Interest rate risk is associated with all assets or liabilities which are sensitive to changes of the term structure of interest rates or the volatility of interest rates. Unit-linked contracts without financial guarantees are affected similarly to equity risk, but all other business is affected as well. In particular, the Company manages a smaller portfolio of traditional contracts with a specific type of financial guarantees. Guaranteed interest is granted to these contracts on an annual basis where the applicable interest rates are regularly adjusted based on the maximum interest rate allowed by the regulator for new business. Hence, the Company is not exposed to high and long-term interest rate guarantees.

Currency risk results from the uncertainty about future changes in the level or volatility of currency exchange rates. The Company is indirectly exposed to currency risk since a material share of unit-linked assets is invested in foreign currencies. Similar to equity risk, the largest part of currency risk is again borne by the policyholders, but the Company's fees depend on the development of currency exchange rates. Assets backing traditional business are not exposed to currency risk.

**Mitigating Actions and Controls**

For assets backing traditional business, the Company has adopted a risk-averse investment strategy whereby assets are managed in accordance with the prudent person principle set out in Article 132 of Directive 2009/138/EC. Any investment in new types of assets requires approval by the management of the Company. The investment strategy follows a transparent investment process considering applicable investment limits and investment principles laid down in the Investment Policy . This ensures the security, quality, liquidity, profitability and availability of the investment portfolio as a whole, as well as compliance with any other related regulatory requirements.

**Material risk concentrations**

Market risk concentrations describe the risk of lack of diversification in the asset portfolio or large exposures vis-à-vis individual debtors. For unit-linked assets, market risk concentrations are not relevant. For its other investments, the Company adheres to the principle of a diversified portfolio. Market risk concentrations are therefore not material for the Company.

**Risk sensitivity**

As market risk is material for the Company, the Company performed a sensitivity analysis with respect to capital market movements. For this purposes, the initial fund volume of the unit-linked contracts is reduced by 10%. The impact of this sensitivity corresponds to 29% of the SCR for market risk. The stress leads to a decrease of Own Funds which is mainly compensated by a corresponding decrease of the SCR such that the overall solvency ratio remains almost unchanged.

## C.3 Credit Risk

Credit risk means the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

Counterparty default risk results from losses due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. On the one hand, this risk is associated with financial assets, on the other hand it appears vis-à-vis intermediaries, policyholders and reinsurance counterparties. It is material for the Company and the most important credit risk. The standard formula assigns a value of EUR 1,291 thousand to counterparty default risk (cf. E.2).

The Company is also exposed to credit risk resulting from an investment in a residential mortgage loan fund.

There is no material exposure from counterparty default risk vis-a-vis intermediaries, policyholders and other debtors. The exposure due to reinsurance is also not material, since expected reinsurance premiums exceed expected payments from reinsurers (cf. D.1).

Spread risk results from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate curve. Changes of credit spreads are in particular the result of changes in credit ratings of debtors. Spread risk is material for the Company. The standard formula (cf. E.2) considers spread risk as part of the risk category market risk (cf. C.2).

**Mitigating Actions and Controls**

With respect to its investments and cash positions, the Company is exposed to the credit standing of various banks. In order to mitigate its exposure, the Company has defined minimum standards for creditworthiness. Compliance with its standards and changes in credit ratings are closely monitored and in case of deterioration of ratings affected positions are reduced.

The credit risk resulting from the investment in residential mortgage loans is largely mitigated by collateral.

To mitigate spread risk, the Company regularly monitors assets backing traditional business and also applies minimum standards for creditworthiness as mentioned above for theses assets. As at the balance sheet date, these assets do not comprise any bonds which were issued by highly indebted countries of the Euro zone.

To control concentration risk, limits for the amount of investments associated with individual debtors apply to all assets except those backing unit-linked business.

**Material risk concentrations**

The residential mortgage fund in which the Company has invested maintains a well diversified portfolio of mortgage loans. Risk concentrations with respect to credit risk are not material.

## C.4 Liquidity Risk

Liquidity risk is the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due. It is not material for the Company.

For unit-linked contracts, the underlying assets are mainly UCITS which are in general liquid by nature. Other investments mainly comprise high quality bonds that are mostly quoted at active markets, cash and UCITS.

Future premium income is a relevant factor for liquidity risk. The total amount of the expected profits included in future premiums, as calculated in accordance with regulatory requirements for the in-force business as at 31 December 2018 is equal to EUR 6,290 thousand. The Company does not use this figure for its liquidity planning.

**Mitigating Actions and Controls**

The Company is integrated in the effective liquidity management of the Group, which includes the permanent monitoring of its liquidity position by the Group.

## C.5 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. It is material for the Company. The standard formula assigns a value of EUR 1,571 thousand to operational risk (cf. E.2).

Operational risk comprises in particular process risk, human resource risk (retention of staff), IT risk, legal/compliance and outsourcing risk. The Company has performed an independent qualitative and/or quantitative assessment of these risks where the quantitative assessment was based on expert judgement of likelihood of occurrence and loss potential.

Most of the Company's key and important functions are outsourced. Outsourcing has significantly contributed to mitigate process, human resource and IT risks. Correspondingly, outsourcing risk has become inherent to the Company's structure. Complementing the processes applied for the set-up and management of outsourcing (cf. B.7), several general measures were taken to mitigate outsourcing risk. All relevant outsourcing counterparties are either companies which belong to the Group with adequate expertise and experience, or are renowned service providers in their respective area of competence. From an operational perspective, the core outsourcing arrangement is the management of the run-off operations by QIS Luxembourg. Here, transfers of experienced staff and part of its infrastructure from the Company to the service provider, as well as a 25% strategic participation of the Company in the service provider, ensure service continuity and adequate control over the outsourced operations.

The Company is subject to a number of legal actions primarily with regard to asset performance. The majority of the assets on the Company's balance sheet are held in respect of unit-linked contracts, where the policyholders or their appointed advisors have selected the assets to be linked to their policies. The Company does not provide asset selection advice and is robustly defending these cases.

**Mitigating Actions and Controls**

The upcoming migration project that will transfer data from the existing to a new IT system is considered in the internal audit schedule.

Additionally, technical measures such as firewalls and access restrictions have been established in order to protect systems and are periodically tested. A business continuity plan is in place and tested annually for effectiveness.

Legal and compliance risks are managed by the compliance function (cf. B.4). The Company has established a well-defined compliance policy according to the high standards of the Group. It has also implemented a strong third party payment procedure including anti-money laundering controls. Adequate litigation provisions have been set up where deemed appropriate.

## C.6 Other Material Risks

**Group risk**

The risk of loss or other adverse impact on the Company arising from financial or non-financial relationships between entities within the Group. This includes reputational, contagion, accumulation, concentration and intra-Group transactions risk.

**Mitigating Actions and Controls**

- Group Risk Policy imposing requirements for group risk management.
- Significant commonality of Board composition across the Group and its subsidiaries.
- Close scrutiny of intra-group transactions including external specialist input where appropriate.
- Reputational Risk policy and escalation process.
- Risk is measured qualitatively and quantitatively e.g. via stress and scenario testing of adverse scenarios across the Group and Company as part of the solvency self-assessment process.

**Strategic Risk**

The risk of loss or other adverse impact on the Company arising from failing to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years.

The Group's strategy is to acquire and consolidate books of life assurance operations in the European market and the Company may play an active role in this. Risks associated with acquisitions are mitigated by due diligence, capitalisation and change management.

**Mitigating Actions and Controls**

- Strategic Risk Policy imposing requirements for strategic risk management.
- Board members and executive committee members with broad experience and deep industry knowledge.
- Rigorous due diligence process led by internal experts with support from external specialists as required.
- Tried-and-tested integration approach and experienced, skilled integration team.
- Emerging risk analysis and reporting.
- Strategic risks are measured qualitatively.

**Reputational Risk**

Reputational risk means the risk of loss, or of adverse change in the financial situation, resulting from a potential damage to the reputation due to a negative public perception of the Company (e.g. among clients, business partners, shareholders, authorities). Reputational risk often emerges in conjunction with other risks, but it can also emerge as an individual risk.

**Mitigating Actions and Controls**

Reputational risk is mitigated by various measures such as the internal control system and the compliance function (cf. B.4), internal audit (cf. B.5), data protection policies and customer complaint management.

**Emerging Risks**

Emerging risks are new future risks whose risk content is not reliably known and whose effects can only be assessed with difficulty; they include regulatory environment risk. The corresponding risk exposure of the Company is limited, since the Company and its branches are based in the EU and the regulatory framework is considered stable.

## C.7 Any other Information

There is no other material information regarding the risk profile.

## D. Valuation for Solvency Purposes

The valuation of assets and liabilities for solvency purposes follows a specific economic valuation concept which materially deviates from the applicable rules for statutory accounting in Luxembourg (local GAAP balance sheet). Therefore, Solvency II requires a revaluation of assets and liabilities. Hereby, Solvency II values are in principle determined according to the following valuation hierarchy:

Level 1: Use of quoted prices in active markets for identical assets or liabilities

Level 2: Use of quoted prices in active markets for similar assets or liabilities, with adjustments to reflect differences

Level 3: Use of alternative methods for valuation (cf. D.4)

In general, the valuation for solvency purposes uses local GAAP as a reference. For this purpose, local GAAP balance sheet positions are mapped to the Solvency II balance sheet positions. For certain items of the Solvency II balance sheet specific requirements or simplifications apply. In any case, compliance with the Solvency II valuation principles has to be ensured. In what follows, only the Solvency II balance sheet positions relevant at 31 December 2018 are explained in detail.

The following table provides a comparison of the amounts reported in the Company's annual report under GAAP principles and the amounts reported in the Solvency II balance sheet for each major balance sheet category as at 31 December 2018:

| | 31 December 2018 | | |
|---|---|---|---|
| | Local GAAP €'000 | Valuation Differences €'000 | Solvency II €'000 |
| **Assets** | | | |
| Property, plant & equipment held for own use | 59 | 0 | 59 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 30,819 | 2,027 | 32,846 |
| Holdings in related undertakings, including participations | 50 | 0 | 50 |
| Government Bonds | 7,785 | 829 | 8,614 |
| Corporate Bonds | 12,600 | 1,210 | 13,810 |
| Collective Investments Undertakings | 10,383 | –11 | 10,372 |
| Assets held for index-linked and unit-linked contracts | 213,863 | 0 | 213,863 |
| Reinsurance recoverables | 95,948 | –8,655 | 87,293 |
| Insurance and intermediaries receivables | 288 | 0 | 288 |
| Reinsurance receivables | 5 | 0 | 5 |
| Receivables (trade, not insurance) | 6,036 | –200 | 5,836 |
| Cash and cash equivalents | 10,896 | 0 | 10,896 |
| Any other assets, not elsewhere shown | 85 | 0 | 85 |
| **Total** | **358,000** | **–6,827** | **351,172** |

| | | | |
|---|---|---|---|
| **Liabilities** | | | |
| Technical Provisions | 234,366 | –17,462 | 216,904 |
| Provisions other than technical provisions | 5,899 | –986 | 4,913 |
| Deposits from reinsurers | 95,948 | 0 | 95,948 |
| Deferred tax liabilities | 0 | 3,308 | 3,308 |
| Insurance & intermediaries payables | 2,184 | 0 | 2,184 |
| Reinsurance payables | 446 | 0 | 446 |
| **Total** | **339,209** | **–15,140** | **324,068** |
| | | | |
| **Excess of assets over liabilities** | **18,791** | | **27,104** |

## D.1 Assets

### D.1 (a) Bases, methods and main assumptions used for the valuation for solvency purposes

**Property, plant & equipment held for own use**

The Company does not have any property or plant for own use in its portfolio.

Equipment is valued in the statutory accounts based on amortised cost. This implies that the market value may be higher or lower than the statutory accounts value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Holdings in related undertakings, including participations**

Holdings in related undertakings, including participations consist of a participation in QIS Luxembourg, the service company that administers the run-off portfolio. It is valued in the statutory accounts based on acquisition cost. This implies that the market value may be higher or lower than the statutory accounts value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Government and Corporate Bonds**

Government and corporate bonds are marked to market for solvency purposes. In case of unlisted bonds the market value is determined by means of the discounted cash-flow method and taking into account term and issuer specific spreads (cf. D.4).

**Collective Investments Undertakings**

Collective investment undertakings consist of investment fund units. They are shown at market value (market price, redemption price) in the Solvency II balance sheet.

**Assets held for index-linked and unit-linked contracts**

Assets held for index-linked and unit-linked contracts consist of investment fund units. They are shown at market value (market price, redemption price) in the statutory accounts. Hence, the Solvency II value equals the statutory accounts value.

**Reinsurance recoverables**

For solvency purposes the valuation of reinsurance recoverables is based on the projection of future cash-flows between the Company and its reinsurance counterparties. This valuation is an integral part of the projection model used for the determination of technical provisions (cf. D.2). The resulting present value of cash-flows is negative, which corresponds to the cost of risk mitigation by means of reinsurance. Conversely, reinsurance cover reduces the SCR (cf. C.1). In addition, reinsurance recoverables include the reinsurance deposits. They are also included with the same amount in the item Deposits from reinsurers (cf. D.3).

| | 31 December 2018 | | |
|---|---|---|---|
| | Index-linked and unit-linked (“unit-linked business”) €’000 | Life excluding health and index-linked and unit-linked (“traditional business”) €’000 | Total €’000 |
| Reinsurance recoverables | 82,868 | 4,425 | **87,293** |

**Insurance and intermediaries receivables**

Insurance and intermediaries receivables consist of commission clawbacks and receivables from policyholders. They are valued in the statutory accounts based on their nominal value; for commission clawbacks a specific allowance for bad debts is made.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality). In particular, expected default of counterparties is reflected appropriately.

**Reinsurance receivables**

Reinsurance receivables consist of the clearing account receivables arising from the reinsurance programme. They are valued in the statutory accounts based on their fulfilment value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Receivables (trade, not insurance)**

Receivables (trade, not insurance) mainly consist of tax receivables and receivables from funds. They are valued in the statutory accounts based on their nominal value.

For solvency purposes the Italian tax receivable is valuated using a discounted cash flow method (cf. D.4).

For the remaining receivables no adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Cash and cash equivalents**

Cash and cash equivalents are shown at market value in the statutory accounts. Hence, the Solvency II value equals the statutory accounts value.

**Any other assets, not elsewhere shown**

Other assets which are not elsewhere shown include in particular prepaid expenses. They are valued in the statutory accounts based on their nominal value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

### D.1 (b) Material differences between the bases, methods and assumptions used for the valuation for solvency purposes and those used in financial statements

**Government and Corporate Bonds**

Government and corporate bonds are valued in the statutory accounts based on amortised cost. This implies that the market value may be higher or lower than the statutory accounts value.

This results in a valuation difference between Solvency II value and statutory accounts value of EUR +829 thousand in case of Government Bonds and EUR +1,210 thousand in case of Corporate Bonds.

**Collective Investments Undertakings**

Collective investment undertakings are valued in the statutory accounts based on amortised cost. This implies that the market value may be higher or lower than the statutory accounts value.

This results in a valuation difference of EUR –11 thousand between Solvency II value and statutory accounts value.

**Reinsurance recoverables**

Reinsurance recoverables considered in the statutory accounts coincide with the reinsurance deposits.

The valuation of reinsurance recoverables for solvency purposes based on the projection of future cash-flows between the Company and its reinsurance counterparties results in a valuation difference of EUR –8,655 thousand between Solvency II value and statutory accounts value.

**Receivables (trade, not insurance)**

The revaluation of the Italian tax receivable results in a valuation difference of EUR –200 thousand between Solvency II value and statutory accounts value.

For all remaining asset classes the values in the financial statement and for solvency purposes coincide (cf. D.1 (a)).

## D.2 Technical provisions

### D.2 (a) Bases, methods and main assumptions used for the valuation for solvency purposes

For solvency purposes, the value of the technical provisions equals the sum of a best estimate and a risk margin. The following table contains the technical provisions for the Company as of 31 December 2018:

| | 31 December 2018 | | |
|---|---|---|---|
| | Solvency II €'000 | Local GAAP €'000 | Difference €'000 |
| Best Estimate Liabilities | 211,324 | | |
| Risk Margin | 5,579 | | |
| **Total** | **216,904** | **234,366** | **–17,462** |

For the two lines of business of the Company (cf.), both best estimate and risk margin are calculated using the same bases, methods and main assumptions.

The following table contains the technical provisions for the Company as of 31 December 2018:

| | 31 December 2018 | | |
|---|---|---|---|
| | Index-linked and unit-linked ("unit-linked business") €'000 | Life excluding health and index-linked and unit-linked ("traditional business") €'000 | Total €'000 |
| Best Estimate Liabilities | 190,109 | 21,215 | 211,324 |
| Risk Margin | 5,291 | 288 | 5,579 |
| **Total** | **195,400** | **21,504** | **216,904** |

The best estimate corresponds to the probability-weighted average of future cash-flows associated with the fulfilment of the obligations arising from insurance contracts, taking account of the time value of money. The market value of the investment fund units assigned to unit-linked contracts is included in the best estimate of unit-linked business, while reinsurance recoverables (cf. D.1) are not included in the best estimate.

Best estimate and risk margin are determined based on the Company's own cash-flow projection model. The model reflects all major products of the portfolio. In principle, cash-flow projections are carried out on the level of individual contracts. The output includes a projection of local GAAP balance sheet and profit and loss account.

Since unit-linked products do not include an interest rate guarantee, their projection is performed for a single scenario (so-called certainty-equivalent scenario). Allowance is made for participation of policyholders in risk surplus and cost surplus.

Likewise, the projection for traditional products is also carried out for the certainty-equivalent scenario. This is due to the characteristics of the interest rate guarantee of these products, which is adjusted on a regular basis and therefore reflects the current interest rate level. Allowance is made for guaranteed interest rates and participation in investment surplus as well as participation of policyholders in risk surplus and cost surplus.

The underlying best estimate assumptions are based on company-specific observations and include appropriate smoothing as well as extrapolation where required. They do neither include explicit nor implicit safety margins. Assumptions with material impact on the results include assumptions regarding future expenses, take-up rates of contractual options (in particular lapses), refunds received from fund managers in the case of unit-linked business as well as the level of future surplus participation in risk surplus and cost surplus.

Future cash-flows are discounted based on the relevant current risk-free interest rate curve prescribed by the applicable regulations.

The risk margin is a theoretical add-on to the best estimate to account for non-hedgeable risks. It shall be such as to ensure that the value of the technical provisions is equivalent to the amount that a so-called reference insurance undertaking would require in order to take over and meet the insurance obligations. The risk margin is calculated as present value of the cost of providing eligible own funds at the amount of the SCR (cf. E.2) which are required to cover the non-hedgeable risks until the portfolio has run off.

Typically, any projection of the SCR requires simplifications. Therefore, various types of simplified calculations are stipulated. The Company applies the so-called method 1, where the SCRs for the relevant risk modules of the standard formula are projected based on suitable drivers and then aggregated for each year of the projection.

### D.2 (b) Uncertainty associated with the value of technical provisions

The valuation of technical provisions for solvency purposes includes uncertainty, in particular regarding the following aspects:

- There is inevitable uncertainty regarding assumptions about future developments, which may have material impact on the valuation of technical provisions and the expected profit in future premiums (EPIFP). This holds particularly for non-economic assumptions regarding future policyholder behaviour (take-up rates of contractual options), expenses and refunds from fund managers. In order to reduce such uncertainty, best estimate assumptions are closely monitored and in general updated on an annual basis. Furthermore, uncertainty results from economic assumptions (e.g. risk free interest rates and fund performance).
- In principle, cash-flow projections are performed on the level of individual contracts. For proportionality reasons, a small number of products as well as certain contract characteristics are not reflected or are modelled in a simplified way. No future profits or losses are assumed for the small unmodelled portion of the portfolio. Compared to the previous reporting period, the unmodelled portion of the portfolio was almost unchanged.
- Unit-linked contracts without financial guarantees comprise the major part of the Company's business, while traditional contracts make up only a small portion of the overall portfolio. The cash-flow projection model used is therefore tailored to unit-linked contracts and the time value of contractual options and financial guarantees of traditional contracts, which have no material impact, is set to zero for proportionality reasons.

Since the portfolio mainly consists of unit-linked business where investment risk is borne by the policyholder, the impact of future management actions on the value of technical provisions is rather low.

The actuarial function (cf. B.6) ensures the adequateness of methods and assumptions underlying the calculation of technical provisions. According to the Company's own assessment, the uncertainties described above do not result in a material uncertainty regarding the assessment of the value of technical provisions.

### D.2 (c) Material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and those used in financial statements

The valuation of technical provisions for solvency purposes differs from the valuation used for statutory accounts, in particular regarding the following material aspects:

- For the Company's dominant line of business – Index-linked and unit-linked insurance – the statutory valuation basically equals the market value of the investment fund units assigned to unit-linked contracts. The value of future profits and losses associated with such contracts is not considered.
- The valuation for solvency purposes is based on best estimates and market-consistent assumptions. In contrast, for the statutory accounts the technical provisions are valued based on prudent assumptions which include safety margins (e.g. for future expenses or biometric assumptions).
- The valuation for solvency purposes reflects future discretionary benefits resulting from unrealised gains and losses on investments backing traditional business as well as allocated surplus from risk coverage and cost. In contrast, statutory accounts only include guaranteed benefits.

These different valuation approaches result in a valuation difference between Solvency II value and statutory accounts value of EUR –18,463 thousand for the line of business of Index-linked and unit-linked insurance and of EUR +1,001 thousand for the line of business of Life insurance excluding health and index-linked and unit-linked.

### D.2 (d) Matching adjustment and volatility adjustment

In order to reduce the impact of fluctuations of market values of interest-bearing securities, the European legislator has stipulated the use of certain adjustments. Their application usually improves the coverage of the SCR and of the Minimum Capital Requirement (MCR) substantially.

The Company does not use either the volatility adjustment according to Article 77d or the matching adjustment according to Article 77b of Directive 2009/138/EC.

### D.2 (e) Transitional risk-free rate and transitional deduction

In order to support a smooth transition from the old solvency rules to the new Solvency II regime, the European legislator has stipulated the use of certain transitional measures. Their application usually improves the coverage of the SCR and of the Minimum Capital Requirement (MCR) substantially.

The Company does not use either the transitional measures on risk-free interest rates according to Article308c or the transitional measures on technical provisions according to Article 308d of Directive 2009/138/EC.

### D.2 (f) Recoverables from reinsurance contracts and special purpose vehicles

For the valuation of recoverables from reinsurance see D.1. Recoverables form special purpose vehicles are not relevant for the Company.

### D.2 (g) Material changes to assumptions made in calculating technical provisions compared to previous reporting period

Compared to the previous reporting period, the projection model has been refined: Expected future dynamic premium increases are now considered in the best estimate. As in previous year, best estimate assumptions were updated for the current valuation date.

## D.3 Other liabilities

### D.3 (a) Bases, methods and main assumptions used for the valuation for solvency purposes

**Provisions other than technical provisions**

Provisions other than technical provisions mainly consist of provisions for expenses, for anticipated losses as well as for taxes. They are valued in the statutory accounts with their expected fulfilment value.

Except for the provisions for anticipated losses no adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality). For anticipated losses from legal claims a revaluation is made based on expert judgement (cf. D.4).

**Deposits from reinsurers**

Deposits from reinsurers are the shares of the reinsurance counterparties in the technical provisions of the local GAAP balance sheet, which are placed with the direct insurer. They are valued in the statutory accounts with their fulfilment value.

No adjustment is made for Solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality). The same amount is included in the item Reinsurance recoverables (cf. D.1).

**Deferred tax liabilities**

The revaluation of assets and liabilities for solvency purposes changes the (theoretical) basis for tax assessment. The realisation of such temporary valuation differences impacts future tax payments (so-called deferred taxes). (Theoretical) future tax payments are shown in the Solvency II balance sheet in the item Deferred tax liabilities.

Deferred taxes are in principle determined by considering valuation differences for each asset and liability position. There is no comparable item in the local GAAP balance sheet.

Furthermore, allowance is made for tax losses carried forward. This reduces the expected future taxes and the deferred tax liabilities are decreased accordingly.

Note that these deferred tax liabilities are a purely theoretical valuation concept for solvency purposes; they are not the actual tax provisions or tax liabilities. The actual tax provisions and tax liabilities shown in the local GAAP balance sheet are recorded in the item Provisions other than technical provisions and in the item Payables (trade, not insurance) in the Solvency II balance sheet respectively.

**Insurance & intermediaries payables**

Insurance and intermediaries payables consist of short-term payment obligations vis-à-vis policyholders and intermediaries, which are not part of the technical provisions. They are valued in the statutory accounts based on their fulfilment value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Reinsurance payables**

Reinsurance payables consist of the clearing account payables arising from the reinsurance programme. They are valued in the statutory accounts based on their fulfilment value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

**Payables (trade, not insurance)**

Payables (trade, not insurance) include in particular tax liabilities, short-term payment obligations of social security contributions as well as various other short-term payables. They are valued in the statutory accounts based on their fulfilment value.

No adjustment is made for solvency purposes since there is no indication that the statutory valuation is inappropriate (principle of proportionality).

### D.3 (b) Material differences with the valuation bases, methods and main assumptions used for the valuation for solvency purposes and those used in financial statements

**Provisions other than technical provisions**

The adjustment for the provision of anticipated losses results in a valuation difference of EUR –986 thousand between Solvency II value and statutory accounts value.

**Deferred tax liabilities**

The recognition of the deferred tax liability results in a valuation difference of EUR +3,308 thousand between Solvency II value and statutory accounts value.

For all remaining liabilities the values in the financial statements and for solvency purposes coincide (cf. D.3 (a)).

## D.4 Alternative methods for valuation

Alternative valuation methods are used in case no market values are available for the valuation of assets or liabilities which are not technical reserves or for which no specific valuation requirements hold.

The Company applies alternative valuation methods for the following items of the Solvency II balance sheet:

| Alternative valuation methods | |
|---|---|
| Government and Corporate Bonds | Discounted cash-flow method |
| Receivables (trade, not insurance) | Discounted cash-flow method |
| Provisions other than technical provisions | Expected fulfilment value |

For the provisions for anticipated losses from legal claims the Solvency II value is determined based on expert judgement regarding amount and likelihood of occurrence, since the statutory valuation is considered too conservative to be appropriate for solvency purposes. This assessment is updated on a regular basis.

The appropriateness of the application of alternative valuation methods is regularly monitored considering acquired experiences. According to the Company's own assessment the application of the above mentioned alternative valuation methods does not have a material impact on the Solvency II balance sheet.

## D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

## E. Capital Management

Capital management and allocation is a key driver of the Company's success. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

### E.1 Own funds

'Own Funds' refers to the excess of the value of the Company's assets over the value of its liabilities, where the value of its liabilities includes technical provisions and other liabilities. Own Funds are divided into three tiers based on their permanence and how well they can absorb losses. Tier 1 are of the highest quality.

#### E.1 (a) Objectives, policies and processes for managing Own Funds

The primary objective of the Company is to ensure compliance with externally imposed capital requirements and to maintain appropriate capital ratios in order to protect the security of its stakeholders, including cedants and policyholders, while maintaining shareholder value. The capital management policy sets out the objectives of the Company. The key objective of this policy is to ensure that the regulatory requirement for the Solvency Coverage is met on an ongoing basis. Processes and reporting are in place to meet this objective. The capital management policy outlines the actions available to the management and the Board at different levels of the reporting solvency ratio.

The Company's key principles of capital management are:

**Monument Re Capital Management Principles**

**1) Target Setting**

- Sufficient capital levels set by the Board, so that the Group is able to withstand appropriate stress scenarios, as approved by the Board
- The current Target Capital level for Monument Re is to maintain Available Capital equivalent to 150% of the ECR
- The Target Capital level for each subsidiary is approved by the relevant Board, taking into account local requirements

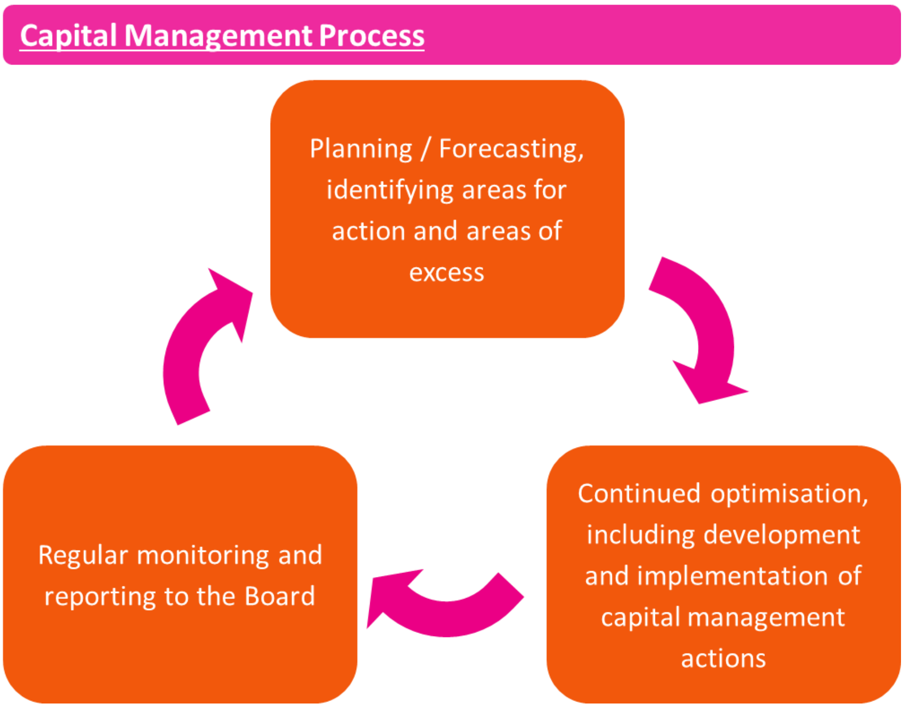
**2) Monitoring**

- Capital levels shall be assessed regularly to ensure that they remain appropriate to support the Group's operations
- Appropriate processes maintained to enable effective monitoring and reporting of capital positions across the Group including the impact of new transactions

**3) Management Actions**

- Activities undertaken to optimise the capital position of the company (and /or subsidiaries)
- Actions continuously identified and executed, in order to optimize capital and remedy breaches of capital levels should a breach occur

The process followed for Capital Management is depicted below:




A capital management plan is prepared annually with the business planning period covering five years. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management and the firm's risk profile. This plan is reviewed and updated on a regular basis to reflect the actual performance of the business. The policy is reviewed annually with the results of the annual ORSA process taken into consideration.

The Basic Own Funds for the Company are calculated quarterly through the production of the technical provisions and a valuation of the Company's balance sheet. The technical provisions are valued using the policyholder information at the end of the quarter and included in the valuation of the balance sheet. The value of the Own Funds is approved by the CFO on a quarterly basis, whilst annually, it is approved by the Board.

Between the quarterly production runs, an estimate of the Own Funds is calculated regularly to provide an input to an estimated SCR ratio. This uses the values from the ORSA to estimate the balance sheet position.

The objectives, policies and processes employed by the Company for managing its Own Funds were aligned with Monument Re Group requirements. The Company continues to target a minimum long-term Solvency ratio of 120%. Potential dividend distributions are decided on a yearly basis taking into account a forward looking view on the Solvency ratio. In principle, dividend payments will only be distributed, if the distribution will not jeopardise the targeted Solvency ratio over the forward looking period.

Summary of the Own Funds and solvency position at 31 December 2018, with prior year comparatives (in EUR '000, except for percentages):

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Own Funds | 27,104 | 26,448 |
| Solvency Capital Requirement (SCR) | 13,890 | 17,510 |
| Minimum Capital Requirement | 3,700 | 4,378 |

| | | |
|---|---|---|
| Absolute Floor of Minimum Capital Requirement | 3,700 | 3,700 |
| **Relevant Solvency Ratio** | **195%** | **151%** |

The Solvency ratios are significantly above 100%. The Company therefore appears well capitalised and the current risk situation is in accordance with its risk-bearing capacity.

### E.1 (b) Information on Own Funds by Tier and the amount eligible to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

Own funds comprise the sum of basic own funds and ancillary own funds. The starting point for the determination of available basic own funds is the excess of assets over liabilities of the Solvency II balance sheet (cf. section D). Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. For the Company, ancillary own funds are not relevant.

Available own funds are classified according to the Solvency II technical specifications into three different classes (Tiers). This classification considers in particular the availability of own funds and their subordination to other claims. Hereby, Tier 1 denotes the highest available classification. The classification determines the eligibility of own funds as far as compliance with the SCR and the MCR is concerned.

The excess of assets over liabilities of the Solvency II balance sheet equals EUR 27,104 thousand. The excess of assets over liabilities exceeds the shareholders' equity of EUR 13,000 thousand shown in the local GAAP balance sheet by EUR 14,104 thousand.

The following table shows the composition of the Solvency II Basic Owns Funds and what is eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement:

| | Total Own funds 31 Dec 2018 €'000 | Total Own funds 31 Dec 2017 €'000 | Tier | Eligible Own Funds to cover SCR 31 Dec 2018 €'000 | Eligible Own Funds to cover SCR 31 Dec 2017 €'000 | Eligible Own Funds to cover MCR 31 Dec 2018 €'000 | Eligible Own Funds to cover MCR 31 Dec 2017 €'000 |
|---|---|---|---|---|---|---|---|
| Ordinary Share Capital | 10,300 | 10,300 | 1 | 10,300 | 10,300 | 10,300 | 10,300 |
| Share premium account related to ordinary share capital | 2,700 | 2,700 | 1 | 2,700 | 2,700 | 2,700 | 2,700 |
| Reconciliation reserve | 14,104 | 13,448 | 1 | 14,104 | 13,448 | 14,104 | 13,448 |
| **Total Basic Own Funds** | **27,104** | **26,448** | **1** | **27,104** | **26,448** | **27,104** | **26,448** |

As in the previous reporting period, the ordinary share capital comprises the subscribed and fully paid equity and is divided into 10,000 registered shares with a nominal value of EUR 1,030 per share. The share premium account includes an issue premium of EUR 2,700 thousand. Uncalled capital does not exist. Both ordinary share capital and share premium account meet the requirements for classification as Tier 1.

The reconciliation reserve comprises the valuation differences regarding the excess of assets over liabilities between the valuation for solvency purposes and the statutory valuation, as well as certain parts of the local GAAP equity. In contrast to the previous reporting period, a deduction of foreseeable dividends is not required. The reconciliation reserve is classified as Tier 1. Compared to the previous year, the reconciliation reserve increased by EUR 656 thousand. This reflects both, the realized profit in 2018 (cf. A.2) and valuation differences between Solvency II and statutory accounts, which represents a decrease of expected future profits. The latter is clearly linked to the risk sensitivity as discussed in section C. For more details on the valuation differences see E.1 c).

In total, this yields available basic own funds at an amount of EUR 27,104 thousand of the highest classification Tier 1. The Company's total basic own funds are available without restrictions for an unlimited period of time and are eligible at their full amount to cover the SCR and the MCR.

### E.1 (c) Material differences between equity in the financial statements and the excess of assets over liabilities for solvency purposes

The excess of assets over liabilities exceeds the shareholders' equity shown in the local GAAP balance sheet by EUR 14,104 thousand. This difference is due to the following reasons:

- unrealised gains that arise from the market-consistent valuation of assets for solvency purposes (cf. D.1)
- market-consistent valuation of technical provisions as sum of a best estimate and a risk margin (cf. D.2)
- other differences regarding the valuation for solvency purposes of certain assets (cf. D.1) and other liabilities (cf. D.3), including the impact of the Solvency II concept of deferred taxes

The following table summarises the differences between shareholders equity reported in the Company's financial statements and the excess of assets over liabilities for solvency purposes:

| | 31 December 2018 €'000 | 31 December 2017 €'000 |
|---|---|---|
| **Shareholder Equity per financial statements** | **18,791** | **17,034** |
| Difference in the valuation of assets | –6,827 | –7,579 |
| Difference in the valuation of liabilities | +15,140 | +18,493 |
| **Solvency II Excess of Assets over Liabilities** | **27,104** | **27,948** |

### E.1 (d) Basic own fund item subject to the transitional arrangements

Not applicable.

### E.1 (e) Ancillary Own Funds

The Company did not have any ancillary own fund items at 31 December 2018 or 31 December 2017.

### E.1 (f) Material items deducted from Own Funds

There are no items deducted from Own Funds at 31 December 2018 or 31 December 2017.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

### E.2 (a) Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

Insurance companies must hold sufficient own funds to fulfil their obligations to policyholders even in situations where highly unlikely risks occur. The SCR represents the key target figure for the required capital buffer from a regulatory perspective. Meeting the SCR (i.e. in case of the respective Solvency ratio being at least 100%) shall secure the obligations to policyholders even in an extreme stress scenario (once-in-200-years event). Complementary to the SCR, the MCR represents an absolute minimum level for own funds.

The following table shows the Company's SCR and MCR requirements as of 31 December 2018, with prior year comparatives:

| | 31 December 2018 €'000 | 31 December 2017 €'000 |
|---|---|---|
| SCR | 13,890 | 17,510 |
| MCR | 3,700 | 4,378 |

### E.2 (b) The amount of the SCR split by risk module

The Company calculates the SCR according to the standard formula. The Basic Solvency Capital Requirement is calculated via a set of EIOPA defined stresses, that are split into the following modules:

- Market risk
- Counterparty default risk
- Life underwriting risk
- Non-life underwriting risk
- Health underwriting risk

These modules are then combined using correlation factors as defined by EIOPA. The following table shows the split of the SCR as of 31 December 2018, with prior year comparatives2017:

| | 31 December 2018 €'000 | 31 December 2017 €'000 |
|---|---|---|
| Market risk | 8,358 | 11,653 |
| Counterparty default risk | 1,291 | 1,489 |
| Life underwriting risk | 11,559 | 13,434 |
| Diversification | –4,890 | –6,194 |
| *Basic Solvency Capital Requirement* | *16,319* | *20,382* |
| Operational Risk | 1,571 | 1,787 |
| Loss-absorbing capacity of technical provisions | –692 | –518 |
| Loss-absorbing capacity of deferred taxes | –3,308 | –4,141 |
| **Solvency Capital Requirement** | **13,890** | **17,510** |

Life underwriting risk and market risk are the dominating risk categories. Diversification effects between different risks as well as the loss-absorbing capacity of technical provisions and deferred taxes mitigate risk. Loss-absorbing capacity means in this context that in a stress scenario future discretionary benefits for policyholders or future taxes may be lower, which reduces the liabilities and thus the risk associated with the stress scenario.

The Non-life and Health underwriting risk modules do not apply to the Company, as its balance sheet is not exposed to these risks.

The level of the SCR is subject to regulatory review.

### E.2 (c) Use of simplified calculations

The Company did not use any simplified calculations or undertaking-specific parameters to arrive at its SCR as of 31 December 2018 or 31 December 2017.

### E.2 (d) Undertaking specific parameters and capital add-ons

The undertaking specific parameters referred to in Article 104(7) of Directive 2009/138/EC are not used by the Company.

The capital add-on as per sub paragraph of Article 51(2) of Directive 2009/138/EC does not apply.

### E.2 (e) Information on inputs used to calculate the MCR

The calculation of the MCR follows a prescribed formula-based approach depending on the business volume (in particular depending on the levels of the technical provisions and capital at risk), with a floor of 25% and a cap of 45% of the SCR. Additionally, an absolute floor of EUR 3,700 thousand has to be considered.

In 2018, the absolute floor became relevant. Hence, the MCR equals EUR 3,700 thousand.

The Company does neither use simplifications nor undertaking-specific parameters according to Article 104 of Directive 2009/138/EC for the calculation of the MCR.

### E.2 (f) Material changes to SCR and MCR over the reporting period

Compared to the previous year, a significant decrease of the SCR can be observed, because lower expected future profits (cf. E.1) lead to lower potential losses in stress scenarios.

In contrast to the previous reporting period, the absolute floor for the MCR became relevant due to the significant decrease of the SCR.

## E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

## E.4 Differences between the standard formula and any internal model used

Not applicable.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company remained compliant with the MCR and the SCR throughout the reporting period.

## E.6 Any other information

There is no other material information regarding capital management.

## Appendix 1 – List of public QRT to be disclosed

Article 4 - Templates for the solvency and financial condition report of individual undertakings.

- Template S.02.01.02 of Annex I, specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC, following the instructions set out in section S.02.01 of Annex II to this Regulation;

- Template S.05.01.02 of Annex I, specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.01 of Annex II to this Regulation, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;

- Template S.05.02.01 of Annex I, specifying information on premiums, claims and expenses by country using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.02 of Annex II;

- Template S.12.01.02 of Annex I, specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT') for each line of business as defined in Annex I to Delegated Regulation (EU) 2015/35, following the instructions set out in section S.12.01 of Annex II to this Regulation;

- Template S.23.01.01 of Annex I, specifying information on own funds, including basic own funds and ancillary own funds, following the instructions set out in section S.23.01 of Annex II;

- Template S.25.01.21 of Annex I, specifying information on the Solvency Capital Requirement calculated using the standard formula, following the instructions set out in section S.25.01 of Annex II;

- Template S.28.01.01 of Annex I, specifying the Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity, following the instructions set out in section S.28.01 of Annex II;

All nominal amounts in the QRT are presented in Euro 000's.

## S.02.01.02 – Balance sheet

| | | Solvency II value |
|---|---|---|
| | | C0010 |
| **Assets** | | |
| Goodwill | R0010 | |
| Deferred acquisition costs | R0020 | |
| Intangible assets | R0030 | |
| Deferred tax assets | R0040 | |
| Pension benefit surplus | R0050 | |
| Property, plant & equipment held for own use | R0060 | 59 |
| **Investments (other than assets held for index-linked and unit-linked contracts)** | **R0070** | **32.846** |
| Property (other than for own use) | R0080 | |
| Holdings in related undertakings, including participations | R0090 | 50 |
| *Equities* | *R0100* | |
| Equities - listed | R0110 | |
| Equities - unlisted | R0120 | |
| *Bonds* | *R0130* | *22.424* |
| Government Bonds | R0140 | 8.614 |
| Corporate Bonds | R0150 | 13.810 |
| Structured notes | R0160 | |
| Collateralised securities | R0170 | |
| Collective Investments Undertakings | R0180 | 10.372 |
| Derivatives | R0190 | |
| Deposits other than cash equivalents | R0200 | |
| Other investments | R0210 | |
| Assets held for index-linked and unit-linked contracts | R0220 | 213.863 |
| **Loans and mortgages** | **R0230** | |
| Loans on policies | R0240 | |
| Loans and mortgages to individuals | R0250 | |
| Other loans and mortgages | R0260 | |
| **Reinsurance recoverables from:** | **R0270** | **87.293** |
| Non-life and health similar to non-life | R0280 | |
| Non-life excluding health | R0290 | |
| Health similar to non-life | R0300 | |
| Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | 4.425 |
| Health similar to life | R0320 | |
| Life excluding health and index-linked and unit-linked | R0330 | 4.425 |
| Life index-linked and unit-linked | R0340 | 82.868 |
| Deposits to cedants | R0350 | |
| Insurance and intermediaries receivables | R0360 | 288 |
| Reinsurance receivables | R0370 | 5 |
| Receivables (trade, not insurance) | R0380 | 5.836 |
| Own shares (held directly) | R0390 | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| Cash and cash equivalents | R0410 | 10.896 |
| Any other assets, not elsewhere shown | R0420 | 85 |
| **Total assets** | **R0500** | **351.172** |

## S.02.01.02 – Balance sheet

| Liabilities | | Solvency II value<br>C0010 |
|---|---|---|
| **Technical provisions - non-life** | **R0510** | |
| **Technical provisions - non-life (excluding health)** | **R0520** | |
| TP calculated as a whole | R0530 | |
| Best estimate | R0540 | |
| Risk margin | R0550 | |
| **Technical provisions - health (similar to non-life)** | **R0560** | |
| TP calculated as a whole | R0570 | |
| Best estimate | R0580 | |
| Risk margin | R0590 | |
| **TP - life (excluding index-linked and unit-linked)** | **R0600** | **21.504** |
| **Technical provisions - health (similar to life)** | **R0610** | |
| TP calculated as a whole | R0620 | |
| Best estimate | R0630 | |
| Risk margin | R0640 | |
| **TP - life (excluding health and index-linked and unit-linked)** | **R0650** | **21.504** |
| TP calculated as a whole | R0660 | |
| Best estimate | R0670 | 21.215 |
| Risk margin | R0680 | 288 |
| **TP - index-linked and unit-linked** | **R0690** | **195.400** |
| TP calculated as a whole | R0700 | |
| Best estimate | R0710 | 190.109 |
| Risk margin | R0720 | 5.291 |
| Other technical provisions | R0730 | |
| Contingent liabilities | R0740 | |
| Provisions other than technical provisions | R0750 | 4.913 |
| Pension benefit obligations | R0760 | |
| Deposits from reinsurers | R0770 | 95.948 |
| Deferred tax liabilities | R0780 | 3.308 |
| Derivatives | R0790 | |
| Debts owed to credit institutions | R0800 | |
| Financial liabilities other than debts owed to credit institutions | R0810 | |
| Insurance & intermediaries payables | R0820 | 2.184 |
| Reinsurance payables | R0830 | 446 |
| Payables (trade, not insurance) | R0840 | 366 |
| **Subordinated liabilities** | **R0850** | |
| Subordinated liabilities not in BOF | R0860 | |
| Subordinated liabilities in BOF | R0870 | |
| Any other liabilities, not elsewhere shown | R0880 | |
| **Total liabilities** | **R0900** | **324.068** |

| | | |
|---|---|---|
| **Excess of assets over liabilities** | **R1000** | **27.104** |

## S.05.01.02 – Premiums, claims and expenses by line of business

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 |
| **Premiums written** | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | |
| Reinsurers' share | R0140 | | | | | | |
| **Net** | **R0200** | | | | | | |
| **Premiums earned** | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | |
| Reinsurers' share | R0240 | | | | | | |
| **Net** | **R0300** | | | | | | |
| **Claims incurred** | | | | | | | |
| Gross - Direct Business | R0310 | | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | |
| Reinsurers' share | R0340 | | | | | | |
| **Net** | **R0400** | | | | | | |
| **Changes in other technical provisions** | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | |
| Reinsurers' share | R0440 | | | | | | |
| **Net** | **R0500** | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | |
| **Other expenses** | R1200 | | | | | | |
| **Total expenses** | **R1300** | | | | | | |

## S.05.01.02 – Premiums, claims and expenses by line of business

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss |
| | | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 |
| **Premiums written** | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | |
| Reinsurers' share | R0140 | | | | | | |
| **Net** | **R0200** | | | | | | |
| **Premiums earned** | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | |
| Reinsurers' share | R0240 | | | | | | |
| **Net** | **R0300** | | | | | | |
| **Claims incurred** | | | | | | | |
| Gross - Direct Business | R0310 | | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | |
| Reinsurers' share | R0340 | | | | | | |
| **Net** | **R0400** | | | | | | |
| **Changes in other technical provisions** | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | |
| Reinsurers' share | R0440 | | | | | | |
| **Net** | **R0500** | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | |
| **Other expenses** | R1200 | | | | | | |
| **Total expenses** | **R1300** | | | | | | |

## S.05.01.02 – Premiums, claims and expenses by line of business

| | | Line of Business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|
| | | Health | Casualty | Marine, aviation, transport | Property | |
| | | C0130 | C0140 | C0150 | C0160 | C0200 |
| **Premiums written** | | | | | | |
| Gross - Direct Business | R0110 | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | |
| Reinsurers' share | R0140 | | | | | |
| **Net** | **R0200** | | | | | |
| **Premiums earned** | | | | | | |
| Gross - Direct Business | R0210 | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | |
| Reinsurers' share | R0240 | | | | | |
| **Net** | **R0300** | | | | | |
| **Claims incurred** | | | | | | |
| Gross - Direct Business | R0310 | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | |
| Reinsurers' share | R0340 | | | | | |
| **Net** | **R0400** | | | | | |
| **Changes in other technical provisions** | | | | | | |
| Gross - Direct Business | R0410 | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | |
| Reinsurers' share | R0440 | | | | | |
| **Net** | **R0500** | | | | | |
| **Expenses incurred** | **R0550** | | | | | |
| **Other expenses** | R1200 | | | | | |
| **Total expenses** | **R1300** | | | | | |

## S.05.01.02 – Premiums, claims and expenses by line of business

| | | Line of Business for: life insurance obligations | | | |
|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance |
| | | C0210 | C0220 | C0230 | C0240 |
| **Premiums written** | | | | | |
| Gross | R1410 | | 1.447 | 18.052 | |
| Reinsurers' share | R1420 | | 384 | 10.825 | |
| **Net** | **R1500** | | **1.063** | **7.227** | |
| **Premiums earned** | | | | | |
| Gross | R1510 | | 1.454 | 18.052 | |
| Reinsurers' share | R1520 | | 384 | 10.825 | |
| **Net** | **R1600** | | **1.070** | **7.227** | |
| **Claims incurred** | | | | | |
| Gross | R1610 | | 2.818 | 33.851 | |
| Reinsurers' share | R1620 | | 375 | 18.919 | |
| **Net** | **R1700** | | **2.442** | **14.932** | |
| **Changes in other technical provisions** | | | | | |
| Gross | R1710 | | 1.450 | 43.658 | |
| Reinsurers' share | R1720 | | -363 | 21.015 | |
| **Net** | **R1800** | | **1.813** | **22.642** | |
| **Expenses incurred** | **R1900** | | **296** | **5.478** | |
| **Other expenses** | **R2500** | | | | |
| **Total expenses** | **R2600** | | | | |

## S.05.01.02 – Premiums, claims and expenses by line of business

| | | Line of Business for: life insurance obligations | | Life reinsurance obligations | | Total |
|---|---|---|---|---|---|---|
| | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| | | C0250 | C0260 | C0270 | C0280 | C0300 |
| **Premiums written** | | | | | | |
| Gross | R1410 | | | | | **19.499** |
| Reinsurers' share | R1420 | | | | | **11.209** |
| **Net** | **R1500** | | | | | **8.290** |
| **Premiums earned** | | | | | | |
| Gross | R1510 | | | | | **19.506** |
| Reinsurers' share | R1520 | | | | | **11.209** |
| **Net** | **R1600** | | | | | **8.297** |
| **Claims incurred** | | | | | | |
| Gross | R1610 | | | | | **36.668** |
| Reinsurers' share | R1620 | | | | | **19.294** |
| **Net** | **R1700** | | | | | **17.374** |
| **Changes in other technical provisions** | | | | | | |
| Gross | R1710 | | | | | **45.107** |
| Reinsurers' share | R1720 | | | | | **20.652** |
| **Net** | **R1800** | | | | | **24.455** |
| **Expenses incurred** | **R1900** | | | | | **5.773** |
| **Other expenses** | **R2500** | | | | | |
| **Total expenses** | **R2600** | | | | | **5.773** |

## S.05.02.01 – Premiums, claims and expenses by country

| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | R0010 | | | | | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| **Premium written** | | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | | |
| Reinsurers' share | R0140 | | | | | | | |
| **Net** | **R0200** | | | | | | | |
| **Premium earned** | | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | | |
| Reinsurers' share | R0240 | | | | | | | |
| **Net** | **R0300** | | | | | | | |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | R0310 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | | |
| Reinsurers' share | R0340 | | | | | | | |
| **Net** | **R0400** | | | | | | | |
| **Changes in other technical provisions** | | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | | |
| Reinsurers' share | R0440 | | | | | | | |
| **Net** | **R0500** | | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | | |
| **Other expenses** | **R1200** | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | |

## S.05.02.01 – Premiums, claims and expenses by country

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | R0010 | | ITALY | SPAIN | GERMANY | FRANCE | | |
| | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| **Premium written** | | | | | | | | |
| Gross | R1410 | | 13.332 | 3.326 | 2.416 | 424 | | 19.499 |
| Reinsurers' share | R1420 | | 8.805 | 1.638 | 399 | 367 | | 11.209 |
| **Net** | **R1500** | | **4.527** | **1.688** | **2.017** | **57** | | **8.290** |
| **Premium earned** | | | | | | | | |
| Gross | R1510 | | 13.339 | 3.326 | 2.416 | 424 | | 19.506 |
| Reinsurers' share | R1520 | | 8.805 | 1.638 | 399 | 367 | | 11.209 |
| **Net** | **R1600** | | **4.534** | **1.688** | **2.017** | **57** | | **8.297** |
| **Claims incurred** | | | | | | | | |
| Gross | R1610 | | 28.754 | 4.070 | 3.100 | 744 | | 36.668 |
| Reinsurers' share | R1620 | | 15.899 | 2.371 | 387 | 638 | | 19.294 |
| **Net** | **R1700** | | **12.855** | **1.699** | **2.713** | **106** | | **17.374** |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | R1710 | | 33.358 | 5.816 | 4.921 | 1.012 | | 45.107 |
| Reinsurers' share | R1720 | | 17.027 | 2.487 | 382 | 756 | | 20.652 |
| **Net** | **R1800** | | **16.331** | **3.329** | **4.538** | **256** | | **24.455** |
| **Expenses incurred** | **R1900** | | 3.478 | 999 | 914 | 383 | | 5.773 |
| **Other expenses** | **R2500** | | | | | | | |
| **Total expenses** | **R2600** | | | | | | | **5.773** |

## S.12.01.02 – Life and Health SLT Technical Provisions

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | R0020 | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | |
| **Best Estimate** | | | | | | | | |
| **Gross Best Estimate** | **R0030** | 21.215 | | 190.109 | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | 4.425 | | 82.868 | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | **16.790** | | **107.241** | | | | |
| **Risk Margin** | **R0100** | 288 | 5.291 | | | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | | |
| Best estimate | R0120 | | | | | | | |
| Risk margin | R0130 | | | | | | | |
| **Technical provisions - total** | **R0200** | **21.504** | **195.400** | | | | | |

## S.12.01.02 – Life and Health SLT Technical Provisions

| | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) | Health insurance (direct business) | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Contracts without options and guarantees | Contracts with options or guarantees |
| | | C0090 | C0100 | C0150 | C0160 | C0170 | C0180 |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | R0020 | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | |
| **Best Estimate** | | | | | | | |
| **Gross Best Estimate** | **R0030** | | | **211.325** | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | | | **87.293** | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | | | **124.031** | | | |
| **Risk Margin** | **R0100** | | | **5.579** | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | |
| Best estimate | R0120 | | | | | | |
| Risk margin | R0130 | | | | | | |
| **Technical provisions - total** | **R0200** | | | **216.904** | | | |

## S.12.01.02 – Life and Health SLT Technical Provisions

| | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |
|---|---|---|---|---|
| | | C0190 | C0200 | C0210 |
| **Technical provisions calculated as a whole** | **R0010** | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | R0020 | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | |
| **Best Estimate** | | | | |
| **Gross Best Estimate** | **R0030** | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | | | |
| **Risk Margin** | **R0100** | | | |
| **Amount of the transitional on Technical Provisions** | | | | |
| Technical Provisions calculated as a whole | R0110 | | | |
| Best estimate | R0120 | | | |
| Risk margin | R0130 | | | |
| **Technical provisions - total** | **R0200** | | | |

## S.23.01.01 – Own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | **10.300** | 10.300 | | | |
| Share premium account related to ordinary share capital | R0030 | **2.700** | 2.700 | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | **14.104** | 14.104 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | **R0290** | **27.104** | **27.104** | | | |

## S.23.01.01 – Own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | **R0400** | | | | | |

## S.23.01.01 – Own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 27.104 | 27.104 | | | |
| Total available own funds to meet the MCR | R0510 | 27.104 | 27.104 | | | |
| Total eligible own funds to meet the SCR | R0540 | 27.104 | 27.104 | | | |
| Total eligible own funds to meet the MCR | R0550 | 27.104 | 27.104 | | | |
| SCR | R0580 | 13.890 | | | | |
| MCR | R0600 | 3.700 | | | | |
| Ratio of Eligible own funds to SCR | R0620 | 195,13% | | | | |
| Ratio of Eligible own funds to MCR | R0640 | 732,54% | | | | |

| | | C0060 |
|---|---|---|
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | R0700 | 27.104 |
| Own shares (held directly and indirectly) | R0710 | |
| Foreseeable dividends, distributions and charges | R0720 | |
| Other basic own fund items | R0730 | 13.000 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | |
| **Reconciliation reserve** | R0760 | 14.104 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life Business | R0770 | 6.290 |
| Expected profits included in future premiums (EPIFP) - Non- life business | R0780 | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 6.290 |

## S.25.01.21 – Solvency Capital Requirement — for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| Market risk | R0010 | 8.358 | | |
| Counterparty default risk | R0020 | 1.291 | | |
| Life underwriting risk | R0030 | 11.559 | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | -4.890 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | **R0100** | **16.319** | | |

**Calculation of Solvency Capital Requirement**

| | | C0100 |
|---|---|---|
| Operational risk | R0130 | 1.571 |
| Loss-absorbing capacity of technical provisions | R0140 | -692 |
| Loss-absorbing capacity of deferred taxes | R0150 | -3.308 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| Solvency capital requirement excluding capital add-on | R0200 | 13.890 |
| **Capital add-on already set** | **R0210** | |
| Solvency capital requirement | R0220 | 13.890 |
| **Other information on SCR** | | |
| **Capital requirement for duration-based equity risk sub-module** | R0400 | |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

## S.28.01.01 – Minimum Capital Requirement — Only life or only non-life insurance or reinsurance activity

**Linear formula component for life insurance and reinsurance obligations**

| MCR calculation Life | | Life activities | |
|---|---|---|---|
| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 15.794 | |
| Obligations with profit participation - future discretionary benefits | R0220 | 996 | |
| Index-linked and unit-linked insurance obligations | R0230 | 107.241 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 64.161 |

| | | Non-life activities | Life activities |
|---|---|---|---|
| | | C0010 | C0040 |
| MCRNL Result | R0010 | | |
| MCRL Result | R0200 | | 1.328 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 1.328 |
| SCR | R0310 | 13.890 |
| MCR cap | R0320 | 6.251 |
| MCR floor | R0330 | 3.473 |
| Combined MCR | R0340 | 3.473 |
| Absolute floor of the MCR | R0350 | 3.700 |
| | | C0070 |
| **Minimum Capital Requirement** | **R0400** | **3.700** |

## Appendix 2 - Glossary

**Absolute Minimum Capital Requirement:** This is an amount of money that the Company is obliged to hold as capital as an absolute floor. For the Company, this amount is €3.7m.

**Basic Own Funds:** According to art. 88 of Solvency II Directive 2009/138/CE, Basic Own Funds are defined as the sum of the excess of assets over liabilities measured on market consistent principles in accordance with art. 75 of Solvency II Directive 2009/138/CE and reduced by the amount of own shares held by the insurance or reinsurance undertaking and subordinated liabilities.

**Best estimate liability:** The Best Estimate Liability represents the expected present value of future cashflows related to insurance and reinsurance obligations in force at valuation date. The Best Estimate Liability is calculated on a gross of reinsurance basis, i.e. without any deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

**Best estimate operating assumptions:** The assumptions on all those non-financial factors which can have an impact on future cashflows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions.

**Cash and cash equivalents:** the item includes cash and highly-liquid short-term financial investments (readily convertible in specific amounts of cash which are subject to an irrelevant risk of change in value). Furthermore, this asset class includes also short-term deposits and money-market investment funds.

**Compliance Function Charter:** The responsibilities of the compliance function are described in the Compliance Function Charter.

**Contract boundaries:** This is the limit beyond which relevant cash flows are excluded from the calculation of technical provisions. It is defined in line with art. 18 of the Delegated Acts and refers to future dates where the insurance undertaking has a unilateral right either to terminate the contract, or to reject payable premiums or to amend the payable premiums or the benefits in such a way that the premiums fully reflect the risks.

**Correlation factors:** Factors which reflect the relationships between the risks included in the calculation of the Solvency Capital Requirement.

**Counterparty default risk adjustment:** The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover because of the possible default of the reinsurance counterparty at any point in time in the future.

**Delegated act:** As part of the Lisbon Treaty, the EU created a tool to put a law in place. They used an 'implementing act' for ruling on procedure and on how to follow legislation that already exists and use a delegated act for ruling on the content of legislation. The Solvency II requirement includes various implementing acts and delegated acts.

**Expected Profit Included in Future Premiums (EPIFP):** it is the expected present value of future cash flows, if positive, which results from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

**Fixed income instruments:** Direct investments in government and corporate bonds, loans, term deposits other than those presented as cash and cash equivalents, and reinsurance deposits. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class.

**Insurance contracts:** a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary [Appendix A, IFRS4].

**Investments properties:** direct investments in real-estates. Moreover, this asset class includes also investments funds mainly exposed to real-estate investments.

**Long term guarantee adjustments and transitional measures:** This expression refers to the matching adjustment (as set out in art. 77b of Solvency II Directive 2009/138/EU), the volatility adjustment (as set out in art. 77d of Solvency II Directive 2009/138/EU), the transitional measure on the risk-free interest rates (as set out in art. 308c of Solvency II Directive 2009/138/EU) and the transitional measure on technical provisions (as set out in art. 308d of Solvency II Directive 2009/138/EU).

**Minimum Capital Requirement (MCR):** The Minimum Capital Requirement corresponds to an amount of eligible basic Own Funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk were insurance and reinsurance undertakings allowed to continue their operations. It corresponds to the Value-at-Risk of the basic Own Funds subject to a confidence level of 85% over a one-year period (Solvency II Directive 2009/138/CE, art. 129).

**Net cash inflows:** it is an indicator of cash flows generation of the life segment. It is equal to the amount of premiums collected net of benefits paid.

**Other investments:** includes participations in non-consolidated Group companies, derivative investments and receivables form banks and customers, the latter mainly related to normal banking operations.

**Own Funds:** According to art. 87 of Solvency II Directive 2009/138/EU, Own Funds are defined as the sum of basic Own Funds and ancillary Own Funds.

**Per policy fee:** Administration fees charges by Monument Insurance Services Limited are charged monthly. The fee is a function of the number of policies and the agreed policy administration fee.

**Premiums Reserves:** The Premiums Reserves (or Premium Provisions) are reserves for contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage.

**Reinsurance recoverables:** Reinsurance recoverables represent the amount of best estimate liability expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in-force reinsurance agreements.

**Risk Appetite:** The Risk Appetite sets out the Company's willingness to accept or avoid in order to achieve its business objectives.

**Risk Control Self-Assessment (RCSA):** is the process of identifying, recording and assessing potential risks and related controls.

**Risk Management Framework (RMF):** The Risk Management Framework is the structured process used to identify potential threats to an organisation and to define the strategy for removing or minimising the impact of these risks as well as the mechanisms to effectively control and evaluate actions.

**Risk Margin (RM):** The risk margin is the part of technical provisions that should ensure that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require in order to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks such as underwriting and operational risks.

**Solvency II ratio:** defined as the ratio between the Eligible Own Funds and the Solvency Capital requirement, both calculated according to the definitions of the Solvency II regime. The ratio has to be intended as preliminary since the definitive Regulatory Solvency Ratio will be submitted to the supervisory authority in accordance with the timing provided by the Solvency II regulations for the official reporting.

**Solvency Capital Requirement (SCR):** The Solvency Capital Requirement is determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings will still be in a position, with a probability of at least 99.5%, to meet their obligations to policyholders and beneficiaries over the following 12 months (Solvency II Directive 2009/138/EU).

**Solvency and Financial Condition Report (SFCR):** The SFCR helps policyholders and other stakeholders better understand the Company's regulatory capital and financial position as required by the European-wide Solvency II regulations and regime.

**Standard formula:** The standard formula is a standard method defined by Solvency II Directive for the calculation of the Solvency Capital Requirement. The standard formula covers the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.

**Technical provisions:** The technical provisions correspond to the sum of the best estimate liability and risk margin. In case where technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables net of the counterparty default adjustment is deducted from the technical provisions.

**Three lines of defence:** In the Three Lines of Defence model, management control is the first line of defence in risk management, the various risk control and compliance over-sight functions established by management are the second line of defence and internal auditor is the third.